goods, and Section 337 of the Tariff Act gives teeth to the Lanham Act in the context of foreign trade by prohibiting the importation of any goods infringing a trademark in violation of the Lanham Act. In this case, however, the court of appeals ruled that there was no prohibition against the importation of gray market goods as long as they were similar to a very small percentage of authorized goods.

The Federal Circuit's decision has exposed and exacerbated a serious and impracticable rift among the circuits on the legal standard for gray market infringement. Some circuits require only proof that the material differences exist, without quantification. Some circuits require proof that, in addition to the existence of material differences, the gray market sales further diminish the value of the mark, *e.g.*, through inferior quality. In the decision below, the Federal Circuit required that a mark owner prove that material differences exist with respect to "all or substantially all" of its products, unless the mark owner proves that the gray market sales further diminish the value of the mark. The Federal Circuit's standard constitutes a mix and match of the individual standards from several circuits and, when applied, completely eviscerates the protection of the trademark laws.

The Federal Circuit's decision is of even greater importance because of the pivotal role of that circuit in providing effective remedies for trademark infringement by gray market goods. Although gray market infringement cases may and do arise in circuit courts throughout the country, the Federal Circuit is the critical forum because it has exclusive jurisdiction of appeals from actions before the United States International Trade Commission ("ITC") under Section 337. Under that law, the ITC has authority to determine whether unfair acts have occurred in the importation of products into the United States, including whether the imported products infringe the trademarks of United States trademark owners. The ITC can exclude infringing products from entry into the United States and enjoin the sale of previously imported

infringing products. Because jurisdiction in a Section 337 action is *in rem* and the case is brought against the product and not the seller, the trademark owner is able to obtain effective relief against imports from all gray market sellers in one action.

The Federal Circuit's opinion not only has exacerbated the existing conflict over the standards for infringement under the Lanham Act, but also has undermined the most critical national remedy available to trademark owners against the growing onslaught of infringing gray market imports. This Court should now resolve the circuit conflict and bring uniformity to a national response to an international problem of infringing goods crossing the United States border.

**B. Background of the Case**

SKF USA manufactures and sells antifriction bearings. While not glamorous products, bearings of all types (ball, roller or plain) play an integral part in everyday life. Virtually everything that moves or turns, from a watch, blender, or dentist's drill to a computer, automobile, or airplane, would fail to function without bearings. Worldwide, the SKF trademark is the premier mark in the antifriction bearing industry. In the United States, that premier position has been universally recognized during the continuous use of the mark for the last ninety-nine years, by the U.S. trademark owner, SKF USA and its predecessors. The preeminence of the SKF trademark in the United States has become a magnet for gray market freeloaders seeking to take advantage of the mark's good will.

Unlike the gray market bearing resellers, where it is undisputed that 100 percent of their sales are not accompanied by any post sale technical services, SKF USA bundles its bearings with post-sale technical services, *In the Matter of Certain Bearings and Packaging Thereto*, Inv. No. 337-TA-469, 2004 ITC LEXIS 473 at *66-68, *80-82 (Int'l Trade Comm'n June 30, 2004) (Pet. App. 74a-76a, 84a-86a).

These services include engineers who address issues or answer questions concerning the proper choice, installation or servicing of SKF bearings. Engineers are available to provide on-site services, and SKF USA also maintains a "hot line" in which it gives advice on all aspects of SKF bearings and their use to over 50,000 callers each year.[1]

Such post-sale technical services are critical to ensure proper use of SKF USA's bearings and thereby maintain the good will in the SKF mark established in a century of use. If the right bearing is not selected for the application and it is not used in the proper manner, the consequences may be calamitous for consumers and third parties. For example, failure of a bearing in an airplane could be disastrous, as nearly happened when a bearing box (not SKF) caught fire in an America West Airlines Airbus 316a, forcing an emergency landing.[2] Unwittingly purchasing the wrong bearing from a gray market seller heightens the danger. For example, a defective gray market ball bearing in a saw mill caused the saw to explode.[3] The injury flowing from gray market products to the reputation of the bearing manufacturer and the good will in its trademark can also be disastrous.

The ALJ, found that all of SKF USA's sales of bearings in the United States are accompanied by post-sale technical services, while the ITC and Federal Circuit found that 97.4 percent of SKF USA's were so accompanied. The ITC and Federal Circuit refused to grant the relief recommended by the ALJ solely because of sales in the remaining 2.6 percent, which reflects five alternate SKF channels of trade. But those channels reflect either specific decisions by SKF USA, exercising its authority as the trademark owner to decide when and how to distribute its products in light of market conditions, or caviling by the ITC about the efficacy of the

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[1] *See* ALJ Hr'g Tr. at 449-50, 539 (Dec. 10, 2002) (Charles Worden).

[2] *See* Don Phillips, *FAA to Advise Crews on Smoke-Related Safety Procedures*, Wash. Post, May 12, 2003, at A2.

[3] *See* ALJ Hr'g Tr. at 1018 (Dec. 12, 2002) (Michael McConville).

services rather than their existence. In the first channel, for example, another well-regarded U.S. manufacturer bought a SKF USA production line and, for a short period, under a manufacturing license, produced bearings with the SKF trademark while it retooled the production line. The manufacturer provided its own services to customers, the biggest of which was SKF USA itself, which bought the bearings instead of producing them itself.

The second and largest channel—reflecting over fifty percent of the 2.6 percent—represented sales that SKF USA made directly to customers with which it did not have a formal distributorship agreement. The contracts accompanying the sales specifically provided that post-sale technical services were included. The ALJ found that those sales were accompanied by post-sale technical services, but the ITC disagreed solely because, to receive the services, the customers allegedly had difficulty proving that their purchases were from SKF USA and not from a gray market source. The direct contractual sales to these customers by SKF USA undermine the ITC's conclusion that barriers to providing services existed on these sales.

As to the three remaining alternate channels—collectively representing less than one tenth of the 2.6 percent—the ITC found that it was too difficult for the customers to provide proof of purchase of non-gray market products and, therefore, SKF USA allegedly did not provide post-sale technical services. The customers in these three channels are generally gray market resellers that periodically buy SKF bearings from authorized SKF USA distributors. Most do not have any expectation of receiving services, but nevertheless would receive them with a proper proof of purchase.

SKF USA's gray market competitors have been selling bearings without any post-sale technical services, thereby endangering both the public and SKF USA's trademark. On a larger scale, gray market problems exist in virtually every

industry, ranging from information technology to footwear, pharmaceuticals, automobiles, consumer goods, and fashion.

### C. Proceedings Below

#### 1. Administrative Law Judge

SKF USA faced a threat from gray market resellers too numerous to sue one by one in courts across the country. As a result, it filed an *in rem* complaint under Section 337 against fourteen respondents and listed twenty-three other gray market bearing sellers. That list has now grown to over 100 gray marketers nationwide. SKF USA's Section 337 case proceeded before an ALJ. After a year of discovery and hearings, the ALJ concluded that gray market bearings were "materially different" from SKF USA's trademarked goods because they were sold without post-sale technical services.

Based on his finding of trademark infringement, the ALJ found a violation of Section 337 and, as a remedy, recommended the issuance of a general exclusion order and cease-and-desist orders against sales of already-imported bearings. *Certain Bearings and Packaging Thereof*, Inv. No. 337-TA-469, 2003 ITC LEXIS 321 at *138-42 (ALJ Initial Determination Apr. 10, 2003) (Pet. App. 516a-520a). The ITC remanded the case to the ALJ for further discovery. *Certain Bearings and Packaging Thereof*, Inv. No. 337-TA-469, 2004 ITC LEXIS 473 at *7-9 (Int'l Trade Comm'n June 30, 2004) (Pet. App. 30a-32a). After another year of fact-finding and hearings, the ALJ again found the existence of material differences and, therefore, trademark infringement and a violation of Section 337. (*Id.* at *63-66 (Pet. App. 71a-74a.)).

#### 2. International Trade Commission

The ITC reversed the ALJ. *Certain Bearings and Packaging Thereof*, Inv. No. 337-TA-469, 2004 ITC LEXIS 473 at *95 (Int'l Trade Comm'n June 30, 2004) (Pet. App. 95a-96a). The ITC concluded that SKF USA had to prove that

"all or substantially all" of its sales were accompanied by post-sale technical services, unless it proved that the gray market sales did not further diminish the value of its marks. "All or substantially all" was defined such that one sale of goods that were not materially different from the gray market goods would not have prevented relief, but more than one sale would prevent a finding of trademark infringement. The ITC found that SKF USA had not met this "all but one" standard as to 2.6 percent of its sales because those bearings purportedly were not accompanied by post-sale technical services.

### 3. Court of Appeals

On appeal, the Federal Circuit affirmed the ITC's decision. The Federal Circuit, the appeals court with the primary responsibility nationally for intellectual property cases, has applied a material difference standard in gray market trademark cases that is inconsistent with all the other circuits, which themselves are inconsistent among each other. The standards applied by the Federal Circuit to evaluate whether material differences exist are contrary to fundamental trademark law and create such a barrier to enforcement against gray market infringement that they render gray market trademark protection virtually useless. Moreover, the Federal Circuit's standards make Section 337, the most useful intellectual property law in the country for providing trademark protection at the border, worthless when applied to gray market cases, because the Federal Circuit is the only reviewing court of Section 337 decisions. In a petition for rehearing en banc, the conflicting standards were brought to the Federal Circuit's attention, to no avail. The conflict among the circuit courts as to the standards for proving the existence of material differences in gray market cases is ripe for review.

## REASONS FOR GRANTING THE PETITION

The decision of the Federal Circuit deepens the existence of a serious conflict among the circuits as to the standard for proving trademark infringement by gray market goods. Instead of following the approach of most circuits, which requires simple proof of material differences between the gray market imports and their authorized counterparts, the Federal Circuit has imposed an extreme standard that requires proof of material differences between the gray market goods and "all or substantially all" of the trademark owner's authorized goods. If the trademark owner cannot meet that standard, the trademark owner must provide independent proof of actual injury to the value of its trademark above and beyond the material differences. If SKF USA could not meet the standard based on the uncontested 97.4 percent of its sales—even without challenging the ITC's quarrel with the remaining 2.6 percent—then the standard will render relief unavailable to most domestic trademark owners.

In the struggle against gray market infringement, the Federal Circuit is not simply one circuit among many when it comes to interpreting the Lanham Act. Because of its exclusive jurisdiction over appeals from the ITC, it sets the legal standard for, and thus determines the effectiveness of, Section 337 actions. Such actions are the most practical and efficacious means by which U.S. trademark owners can enforce their intellectual property rights against a deluge of gray market resellers by stopping the infringing imports at the border and enjoining resale of infringing goods that have already made it into this country. Because the Lanham Act standard should be the same without regard to the forum, this Court should bring uniformity to an issue which is national in scope and requires a consistent national response and remedy.

## I. THE FEDERAL CIRCUIT'S "MATERIAL DIFFERENCES" STANDARD CONFLICTS WITH THE APPROACHES OF OTHER CIRCUITS.

The Federal Circuit's decision has deepened an existing morass of conflicting standards applied by the circuits to gray market infringement cases. *See* Jerome Gilson, *Trademark Protection and Practice* § 5.10A[1] (2005) (noting the uncertainty with respect to the law in the gray market arena). These conflicts surround four different aspects of the "material differences" test: (i) Is the existence of material differences sufficient to establish infringement? (ii) Must the trademark owner offer additional proof that the gray market imports are of inferior quality? (iii) Must the trademark owner offer additional proof of actual harm to its good will in the mark? (iv) Must the material differences characterize "all or substantially all" of the trademark owner's authorized goods?

*Whether Material Differences Suffice.* The First, Second,[4] and Fifth Circuits hold that gray market goods infringe if, without more, the goods (1) were not intended to be sold in the United States and (2) were materially different from the authentic goods that were authorized for sale in the United States.[5] The Federal Circuit had followed this approach

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[4] In cases of deteriorated products, which are not at issue in this case, the Second Circuit follows a different standard, requiring proof that "(i) [the trademark owner] has established legitimate, substantial, and nonpretextual quality control procedures; (ii) it abides by these procedures; and (iii) the non-conforming sales will diminish the value of the mark." *Warner-Lambert Co. v. Northside Dev. Co.*, 86 F.3d 3, 6-7 (2d Cir. 1996). The Second Circuit's deteriorated-product test requires both the "defendants' product [to be] actually inferior to the plaintiffs' product;" and actual harm to the plaintiff's goodwill. *Monsanto Co. v. Haskel Trading, Inc.*, 13 F. Supp. 2d 349, 358 n.5 (E.D.N.Y. 1998).

[5] *See Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992) ("a material difference between goods simultaneously sold in the same market under the same name creates a presumption of consumer confusion"); *Ahava (USA), Inc. v. J.W.G., Ltd.*, 250 F. Supp. 2d 366, 370 (S.D.N.Y. 2003) ("a gray market good is not considered genuine if the goods (1) were not intended to be sold in the

before the opinion in this case.[6] While the Ninth and Eleventh Circuits have both held "that a materially different product is not genuine and therefore its unauthorized sale constitutes trademark infringement," they have not further articulated their respective tests. *Davidoff & CIE, SA v. PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001); *see also Am. Circuit Breaker Corp. v. Oregon Breakers Inc.*, 406 F.3d 577, 585 (9th Cir. 2005). Expounding on the test, the Third Circuit requires a trademark holder to "show that it uses substantial and nonpretextual quality control procedures such that non-conforming sales will diminish the value of the mark.'" *Iberia Foods Corp. v. Rolando Romeo*, 150 F.3d 298, 304 (3d Cir. 1998) (quoting *Warner-Lambert Co. v. Northside Dev. Co.*, 86 F.3d 3, 6 (2d Cir. 1996)).

*Whether Inferior Quality Is Required.* The First, Second, Fourth, and Fifth Circuits do not require proof that the gray market goods are of inferior quality. As the Fourth Circuit explained, "The actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain." *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 107 (4th Cir. 1991) (quotation omitted).[7] In

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United States and (2) were materially different from the authentic goods that are authorized for sale in the U.S. market") (citing *Original Appalachian Artworks, Inc. v. Granada Elec., Inc.*, 816 F.2d 68, 72-73 (2d Cir. 1987) ("[the foreign products] were not intended to be sold in the United States and, were materially different from the ... [products] sold in the United States"); *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1301-02 (5th Cir. 1997) (finding infringement "if the goods sold by the authorized domestic distributor and the defendant's foreign goods are materially different").

[6] *See Gamut Trading Co. v. United States Int'l Trade Comm'n*, 200 F.3d 775, 779 (Fed. Cir. 1999) ("the basic question in gray market cases concerning goods of foreign origin is...whether there are differences between the foreign and domestic product and if so whether the differences are material").

[7] *Accord Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d at 640 ("A showing that the alleged infringing product suffers in quality is not necessary to prove a Lanham Act violation."); *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986) ("For

contrast, the Third Circuit has held that "the test is whether the quality control procedures established by the trademark owners are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the products could injure the trademark owner's goodwill." *Iberia Foods Corp.*, 150 F.3d at 304.

*Whether Actual Harm to Good Will Is Required.* The First, Second, and Fifth Circuits do not require additional proof of actual injury to the trademark's good will in confusion-of-source cases.[8] In contrast, the Third and Fourth Circuits do not presume harm to or diminishment of the mark holder's good will from the existence of material differences, but they instead require the trademark owner to establish independently that there has been such harm.[9] The Federal Circuit has now held that the trademark owner must show that the gray market sales "further diminish" the value of the mark if it cannot establish that "all or substantially all" of its goods are accompanied by the characteristics that it claims as material differences. *SKF USA Inc.*, 423 F.3d at 1315-16 (Pet. App. 16a-19a).

*Whether "All or Substantially All" of the Goods Must Be Materially Different.* The Federal Circuit has now superimposed an "all or substantially all" requirement and a

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this purpose the actual quality of the goods is irrelevant."); *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d at 1302 ("plaintiff need not prove that the defendant's imports are of inferior quality to establish trademark infringement, only that they are materially different").

[8] *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d at 640 (rejecting argument "that proof of actual harm to [the mark holder's] goodwill was a prerequisite to finding a Lanham Act violation").

[9] *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d at 108 ("a finding of actual losses is a prerequisite to an award of damages," trademark infringement under the Lanham Act does not *per se* result in harm or damages to the mark holder); *Iberia Foods Corp.*, 150 F.3d at 304 (requiring that the claimed material differences "diminish the value of the mark").

"further diminishment" criterion. The court held that "[i]f less than *all or substantially all* of a trademark owner's products possess the material difference, then the trademark owner has placed into the stream of commerce a substantial quantity of [nonconforming] goods...and then there is no material difference." *Id.* at 1315 (emphasis added) (Pet. App. 16a). The court specified that its new standard allows "something less than 100% compliance" or a "small amount of nonconforming goods," *e.g.*, that "[a] *single sale* of a nonconforming item *typically* should not defeat a trademark owner's protection." *Id.* at 1316 (emphasis added) (Pet. App. 18a-19a).

As in this case, the Federal Circuit's "all but one" quantification requirement can be dispositive. The court held below that a purportedly nonconforming *2.6 percent* of SKF USA's sales was enough to bar a presumption of harm. In contrast, in *Warner-Lambert*, the Second Circuit found infringement even though *4.4 percent* of the cough drops at issue had slipped through the quality control standards established by the manufacturer and been sold to consumers. *Warner-Lambert*, 86 F.3d at 7-8 & n.1. None of the other circuits has established a quantification requirement for nonconformity of the gray market imports.

As even this brief exposition demonstrates, the courts of appeals measure trademark infringement by gray market goods with a multiplicity of conflicting standards. The Federal Circuit, by requiring all but one of the trademark owner's authorized goods to be materially different, has chosen the most extreme measure for nonconformity. And because the Federal Circuit has exclusive jurisdiction over appeals from *in rem* Section 337 cases in the ITC, its extreme measure will be applied to frustrate the most potent defense United States trademark owners have against a flood of gray market imports. The Federal Circuit's decision therefore provides the ideal vehicle for resolving this conflict.

## II. THE CIRCUIT CONFLICT UNDERMINES TRADEMARK OWNERS' AND THE PUBLIC'S PRINCIPAL PROTECTION AGAINST GRAY MARKET INFRINGEMENT.

The circuit conflict exacerbated by the Federal Circuit's opinion below is important not only because of the unduly restrictive nature of the Federal Circuit's test, but also because the Federal Circuit's jurisdiction over Section 337 cases allows that restrictive test to thwart a critical means of protecting U.S. trademark owners and the public by stopping infringing gray market imports at the border. By their nature, gray market imports represent a growing national problem of international character that warrants uniform application of federal intellectual property law, whether the suit is pending in a federal district court or before the ITC.

### A. The Federal Circuit's Extreme Standard Ignores the Reality of Consumer Markets and Trademark Law's Focus on Protecting the Expectations of Average Consumers.

The practical application of the Federal Circuit's new legal standard creates an insurmountable impediment to trademark protection against gray market infringement. To prevail, a trademark owner must establish that every authorized product is accompanied or characterized by all claimed material differences, with a carve-out only for a single nonconforming sale. But even the most conscientious and scrupulous trademark owners, who implement the most rigorous and demanding manufacturing, distribution, and service procedures, cannot prevent nonconforming trademarked goods from ever entering the stream of commerce. Non-conformities are a reality of the marketplace.

Indeed, before the Federal Circuit's interpretation, trademark law allowed that a trademark owner could, in the exercise of its control over the character and distribution of its goods, even purposefully exclude a certain limited subgroup

of consumers or sales from its normal quality control procedures. *See Philip Morris, Inc. v. Allen Distribs., Inc.*, 48 F. Supp. 2d 844, 848 (S.D. Ind. 1999) ("Plaintiff concedes that for reasons of impracticality its quality control program cannot and does not reach the smallest retailers of its product."); *see also R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores Inc.*, 57 U.S.P.Q.2d (BNA) 1253, 1255 (N.D. Ill. Nov. 15, 2000) ("[Plaintiff] need not show that its procedures succeed in preventing virtually all stale products from reaching the consumer. It is sufficient that they stop enough undesired purchases to create a material difference between the categories of domestic and foreign sale cigarettes. *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d at 395 ("one of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark").

Moreover, the Federal Circuit's standard is even more impracticable in the context of nonphysical differences, where the nonconforming nature of the sales is often intentional. For example, the provision of extensive technical services in the aftermarket and the provision of limited services in the original equipment manufacturer (OEM) market do not defeat the trademark owner's protection; rather, the tailored nature of the services strengthens the owner's mark, because diverse customer bases bring with them diverse customer expectations.

Warranties are another example. A manufacturer of electronic guitars might offer extensive repair-or-replacement warranties to nearly all of its customers, but agree with customers in certain niche markets not to include them, *e.g.*, rock musicians who use guitars in a destructive manner as on-stage props. Similarly, an automobile manufacturer might offer little or no warranties on vehicles sold to stock-car teams who would be expected to radically modify them. Neither manufacturer should therefore face unconstrained

infringement by gray marketers reselling products without warranties to ordinary consumers who would expect them to be included or be harmed by their absence. The Federal Circuit failed to consider the real-world application of its "all but one" standard, particularly with respect to nonphysical differences.

Similarly, the Federal Circuit's standard conflicts with fundamental tenets of the trademark law directed to protecting the expectations of average consumers. The trademark laws are intended to protect the "interest of the public in not being deceived" and to protect the interest of the trademark owner from "having the fruit of its labor misappropriated." McCarthy, *supra*, § 2:1. Congress explicitly recognized these fundamental principles in enacting the Lanham Act. *See* S. Rep. No. 19-1333 (1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1274. The animating principle of the Lanham Act is that "trademarks [are] a kind of 'warranty' to purchasers that they will receive, when they purchase goods bearing the mark, goods of the same character and source...as other goods previously purchased bearing the mark that has already given the purchaser satisfaction." McCarthy, *supra*, § 3:10 (citation omitted). "Since the court cannot possibly take each individual purchaser into account in determining whether confusion is likely, it usually generalizes." Gilson, *supra*, § 5.08[1]. Accordingly, trademark law, including the material difference standard, measures the expectations of the *average* consumer. *See Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d at 641 (threshold for materiality is low enough to account for differences "that are not blatant enough to make it obvious to the *average consumer* that the origin of the product differs from his or her expectations") (emphasis added); *see also Fisher Stoves, Inc. v. All Nighter Stove Works, Inc.*, 626 F.2d 193, 194 (1st Cir. 1980); *Manhattan Indus. v. Sweater Bee by Banff, Ltd.*, 627 F.2d 628 (2d Cir. 1980).

As defined by the Federal Circuit, "all or substantially all" is inconsistent with the concept of the "average consumer" or "the consumer to whom the product is usually sold." *McCarthy, supra*, § 23.98; *see also Philip Morris, Inc.*, 48 F. Supp. 2d at 848. By fixating in *SKF USA* on the exceptions to the rule rather than the norm, the Federal Circuit has effectively turned a fundamental legal principle on its head.

### B. The Federal Circuit's Standard Undermines a Critical National Remedy Against Infringement by Gray Market Imports.

Sales of gray market goods afflict a broad range of industries. While such sales are not new, their escalation throughout the United States has made the issue quantitatively and qualitatively more serious in recent years. In 1988, annual gray market sales of all goods were estimated to be $7-10 billion. *See* Frank V. Cespedes et al., *Gray Markets: Causes and Cures*, 66 HARVARD BUS. REV. 75, 76-82 (July/Aug. 1988). Now, annual sales of gray market products in the information technology industry alone top $40 billion. *See* KPMG/Anti-Gray Market Alliance, *The Grey Market* at 1 (2003), *available at* http://www.kpmg.de/library/pdf/030211_The_Grey_Market_en.pdf. By themselves, aggregate gray market sales of SKF-branded products by all known gray marketers are estimated to exceed $100 million annually. Hr'g Tr. at 1815-18 (David P. Kaplan), 12/17/02; CX-2468.1C (extrapolated for gray marketers identified throughout the proceedings).

While the dollar amounts frame the size of the issue, they do not communicate the danger of the issue. Consumers buy trademarked goods because the trademark owner has expended the effort to develop the good will and value represented by the trademark. In contrast, gray marketers, "have no incentive to support the goodwill of any mark they sell; their sales are based solely on price advantage. It stands to reason that they conduct their operations as cheaply as possible and do not undertake the same degree of care...to

insure consumer satisfaction...." *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163, 1167 (S.D.N.Y. 1984). Consumers, however, believe from the presence of the trademark that they have purchased legitimate products, but they may find that the gray market import lacks critical attributes associated with legitimate trademarked goods sold for the domestic market. They may learn too late that the gray market good carries no warranty at all or a warranty not valid in the United States. As in SKF USA's case, they may find that the post-sale technical services needed to ensure the proper application of the products do not exist.

The widespread nature of the problem, the deceptive business practices employed by the entities operating in the gray market (such as routinely changing or disguising their identity), and the origins of the problem arising outside the United States, create unique legal issues demanding a distinct legal solution. *In rem* actions under Section 337 are that solution, allowing the ITC to avoid problems inherent in suits against each individual gray market participant by excluding infringing products from the country and enjoining any distribution of products by any party. The Federal Circuit has exclusive appellate jurisdiction over Section 337 cases before the ITC, and the standard it has adopted will therefore dictate the effectiveness of the most potent defense United States trademark owners have against the flood of infringing gray market imports.

The tribunal with the most potential to deal with the gray market problem has now closed its doors by applying a standard that is almost impossible to satisfy. The Federal Circuit's standard allows would-be infringers to turn minor nonconformities or deliberate market-channel decisions by trademark owners into a license to sell nonconforming goods on a widescale basis to any consumers they choose, without obtaining the trademark owner's consent or adhering to the trademark owner's consumer-protection practices. Gray market resellers will be able to free-ride to an unprecedented

extent on the good reputation developed by the trademark owner's investment, by selling unauthorized products without any accompanying services, as cheaply as possible.

The Federal Circuit's new standard undermines a critical means of national response to a growing threat from international trade. Unless this Court grants certiorari and clarifies the law in this area, the Federal Circuit's material difference standard will allow trademark owners' exceptions to swallow their rules, and thereby allow would-be infringers to destroy the public's confidence in trademarked products that U.S. trademark owners have in many instances built up over decades.

## CONCLUSION

For the foregoing reasons, this Court should grant the petition for a writ of certiorari.

Respectfully submitted,

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March 23, 2006

# APPENDIX

# APPENDIX A — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DECIDED SEPTEMBER 14, 2005

## UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 04-1460

SKF USA INC.,

Appellant,

v.

INTERNATIONAL TRADE COMMISSION,

Appellee,

and

BEARINGS LIMITED,

Intervenor,

and

MCGUIRE BEARING COMPANY,

Intervenor.

DECIDED: September 14, 2005

*Appendix A*

Before LOURIE, *Circuit Judge*, ARCHER, *Senior Circuit Judge*, and GAJARSA, *Circuit Judge*.

LOURIE, *Circuit Judge*.

SKF USA, Inc. appeals from the judgment of the United States International Trade Commission concluding that § 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 (2000), had not been violated by the importation, sale for importation, and sale within the United States after importation of certain SKF-marked bearings. *In re Certain Bearings & Packaging Thereof*, Inv. No. 337-TA-469 (Int'l Trade Comm'n May 24, 2004) ("*Final Determination*"). Because substantial evidence supports the Commission's conclusion that all or substantially all of SKF USA's bearings are not predictably and consistently accompanied by post-sale services and its consequent conclusion that there was no likelihood of confusion between SKF USA's goods and the gray market goods, we affirm.

## BACKGROUND

SKF USA, Inc. is a manufacturer of ball bearings located in the United States. It produces SKF-marked bearings in the United States and also imports SKF-marked bearings that are manufactured abroad by SKF Manufacturing Units. SKF USA and SKF Manufacturing Units are owned by the same parent company, AB SKF, a Swedish corporation.

SKF USA sells bearings at all levels of the market, both directly to large original equipment manufacturers and to end users. It sells its products through a network of authorized

distributors, as well as to some "nonauthorized" distributors, *i.e.*, distributors to which SKF USA sells but with whom SKF USA does not have an "Industrial Distributor Agreement." Such nonauthorized goods, made by an SKF entity, but not sold or authorized for sale in the United States, are often known as "gray market goods" or simply "gray goods." Additionally, SKF USA itself imports bearings distributed by its foreign manufacturing units, and SKF USA's authorized distributors have themselves purchased gray market bearings, including some from companies that were respondents in the Commission's § 337 investigation.

In April 2002, SKF USA filed a complaint at the Commission against fourteen respondents, alleging they violated § 337 by (1) infringement of various registered trademarks in violation of section 32 of the Lanham Act, 15 U.S.C. § 1114(1)(a); (2) infringement of common law trademarks; (3) false representation of source in violation of section 43(a)(1)(A) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A); (4) dilution of registered and common law trademarks in violation of section 43(c)(1), 15 U.S.C. § 1125(c)(1); and (5) false advertising in violation of section 43(a)(1)(B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B).

In April 2003, an Administrative Law Judge ("ALJ") issued an initial determination, finding that four of the respondents—Bohls Bearing and Transmission Service, CST Bearing Company, Bearings Limited, and McGuire Bearings Company—had violated § 337 by infringement of SKF USA's registered and common law trademarks and making a false designation of source. *In re Certain Bearings & Packaging Thereof*, Inv. No. 337-TA-469 (Int'l Trade Comm'n Apr. 10,

2003) ("*Initial Determination*"). The ALJ applied the "material differences" test set forth in *Gamut Trading Co. v. International Trade Commission*, 200 F.3d 775 (Fed.Cir.1999), and found that there were no *physical* material differences between the bearings that SKF USA sold or authorized for sale and those bearings that were imported and sold by the respondents. However, the ALJ determined that this court has not expressly required that material differences be physical in nature. Instead, he determined that the existence and extent of technical and engineering services may constitute material differences in terms of § 337 trademark liability despite not being physical characteristics, consistent with the test set forth in *Gamut*. *Initial Determination*, slip op. at 64.

SKF USA employs a number of "industry specialists," engineers who have expertise in equipment used in particular fields, to provide on-going technical and engineering assistance to its customers. *Id.*, slip op. at 77. Those services consist of on-site services and "hotline" support. Its specialists receive extensive and on-going training each year, and they perform such tasks as troubleshooting, technical support, installation supervision, and end user training. *Id.* The ALJ found that "SKF USA will provide post-sale customer support to customers who buy SKF bearings from SKF USA authorized distributors regardless of where the SKF bearings came from." *Id.*, slip op. at 78. He determined that even if "SKF bearings came from the gray market," "SKF USA will provide post-sale customer service support." *Id.* The ALJ also found that SKF USA provided hotline support as another method of customer service. He heard testimony that SKF USA, through its hotline, dealt with such problems

as maintenance, installation, and lubrication of its products. *Id.*, slip op. at 79. He determined that SKF USA took reasonable steps to prevent purchasers of SKF bearings from nonauthorized sources from using its hotline services. *Id.*

The ALJ determined that the SKF USA bearings and the gray market bearings differed materially in the post-sale technical services offered with them, particularly on-site services and hotline support. Because SKF USA presented evidence that customers would likely be confused as to the degree of post-sale technical and engineering services to which they were entitled, and because "the evidence of record [was] devoid of comparable services by Respondents," *id.*, slip op. at 77, the ALJ found that "there [was] a likelihood of confusion and therefore a violation of Section 337," *id.*, slip op. at 80. The ALJ thus held that the four respondent companies violated § 337 by infringing SKF USA's registered and common law trademarks and by falsely designating the origin of the ball bearings. The ALJ, however, determined that SKF USA had not carried its burden of proving false advertising or trademark dilution. *Id.*, slip op. at 239.

Thereafter, SKF USA, the four respondents, and the Commission's investigative attorney filed a joint petition for review by the full Commission, each contesting various aspects of the ALJ's initial determination. Upon review, however, the Commission determined that additional information was needed and remanded the case for further fact-finding in August 2003. Specifically, the Commission requested information relating to SKF USA's sales through "alternate" channels of distribution, including sales on the surplus market and the vehicle service market, and the

warranties, product recall procedures, and post-sale technical services passed on to the end user relating to those sales. The ALJ completed that additional fact finding in December 2003, and the case was returned to the full Commission in January 2004.

In May 2004, the Commission issued its final decision reversing the ALJ's initial decision. First, it agreed with the ALJ that the question whether material differences can be found in a gray market case based solely on nonphysical differences is a matter of first impression for the Commission and an issue not yet specifically addressed by this court. The Commission further noted that this court did not hold in *Gamut* that a material difference must be a physical one in order to show gray market trademark infringement, and it declined to create a *per se* rule that material differences must be physical in nature. *Final Determination*, slip op. at 25-26.

The Commission concluded that the post-sale services did not accompany certain of SKF USA's sales, including alternate channels of distribution consisting of sales (1) Chicago Rawhide, SKF USA's business unit relating to the vehicle service market, (2) Roller Bearing Company/ Tyson Bearing Company, (3) gray market distributors, (4) the surplus market, and (5) nonauthorized distributors to end users. *Id.*, slip op. at 39, 42, 55. Sales from these alternate channels of distribution amounted to 12.6% of SKF USA's total bearing sales. *Id.*, slip op. at 39. Despite the undisputed 87.4% of SKF USA bearing sales to authorized distributors that were supported by post-sale services, the Commission determined that the 12.6% of SKF USA's bearing sales was

sufficient to defeat SKF USA's argument that the material difference accompanied all or substantially all of its marked bearings.

The Commission considered SKF USA's assertion that "a trademark owner's non-adherence to its policies or practices with respect to some of its sales does not defeat a claim of infringement if those 'non-conforming' sales are insignificant." *Id.*, slip op. at 57. SKF USA argued that in *Warner-Lambert Co. v. Northside Development Corp.*, 86 F.3d 3 (2d Cir.1996), a preliminary injunction was granted even though 4.4% of the plaintiff's cough drops were found to be nonconforming goods, *i.e.*, they did not comply with the freshness date standard that was alleged to have been violated by the infringing goods. However, the Commission rejected SKF USA's argument that *Warner-Lambert* held that certain of a trademark owner's nonconforming goods may be ignored if they are of *de minimis* amounts. Instead, the Commission stated that that case stood for the proposition that, "in order to be entitled to relief against a later seller of nonconforming goods, a trademark holder who sells nonconforming goods must show that the later sales measurably diminish the value of an already partially devalued mark." *Final Determination*, slip op. at 62. The Commission held that SKF USA could not prevail under *Warner-Lambert* because SKF USA failed to prove that its trademark had been further devalued by the respondents' sales. *Id.*, slip op. at 63.

The Commission agreed with the respondents that a trademark owner must show that "all or substantially all" of its marked goods are accompanied by the characteristic that

is alleged to be a material difference. It relied on the Fifth Circuit's decision in *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir.1997), which held that a trademark owner could not prevent a gray market importer from importing and selling goods of the same quality from the same product line of trademarked porcelain pieces that previously had been imported, offered for sale, or sold by the trademark holder. The Commission held that if SKF USA had sold or authorized for sale bearings to which post-sale services did not predictably and consistently attach, those services cannot be considered "integral" to the goods and cannot constitute the basis for finding a material difference. *Final Determination*, slip op. at 63.

The Commission examined the ALJ's review of the alleged material difference between SKF USA's post-sale technical and engineering support of the domestic and the gray market goods. It disagreed with the ALJ's decision to limit his analysis of the material differences to bearings sold through authorized channels of distribution and found that the ALJ's broad findings regarding provision of support to end users were not supported by the record. Instead, it also considered SKF USA's sales through the so-called "alternate" channels of distribution, *i.e.*, nonauthorized distributors, gray market distributors, the surplus market, and sales by Roller Bearing Company/Tyson Bearing Company, a licensee of SKF USA. The Commission determined that SKF USA chose to distribute through authorized and nonauthorized distributors in order to maximize its bearing sales and that by doing so, SKF USA undermined its own quality control and failed to provide the same level of service to bearings

sold through alternate channels. *Id.*, slip op. at 51-52. It also discounted SKF USA's hotline services as constituting a material difference in the bearings because the evidence showed that consumers in alternate channels faced severe difficulty in obtaining SKF USA post-sale services. *Id.*, slip op. at 52, 55. The Commission thus concluded that SKF USA's bearings did not differ materially from respondents' bearings because "SKF USA has authorized the sale of SKF-marked bearings . . . [that] are not predictably and consistently accompanied by post-sale technical and engineering services." *Id.* Accordingly, the Commission reversed the ALJ's decision and held that the respondent companies had not infringed SKF USA's trademark and violated § 337. SKF USA appeals; we have jurisdiction pursuant to 28 U.S.C. § 1295(a)(6).

## DISCUSSION

Pursuant to the Administrative Procedure Act, we review the factual findings of the Commission under the substantial evidence standard. *See* 19 U.S.C. § 1337(c) (2000); 5 U.S.C. § 706(2)(E) (2000). We thus will not overturn the Commission's factual findings if they are supported by "such relevant evidence as a reasonable mind might accept as adequate to support a conclusion." *Finnigan Corp. v. Int'l Trade Comm'n*, 180 F.3d 1354, 1362 (Fed.Cir.1999) (quoting *Surface Tech., Inc. v. Int'l Trade Comm'n*, 801 F.2d 1336, 1340-41 (Fed.Cir.1986)). We review the Commission's legal determinations *de novo*. *See* 5 U.S.C. § 706(2)(A) (2000); *Checkpoint Sys. v. Int'l Trade Comm'n*, 54 F.3d 756, 760 (Fed.Cir.1995).

## *Appendix A*

### A. *Material Difference Standard*

The first issue we address is whether the distinction between domestic goods and gray market goods must be physical in nature in order to satisfy the "material difference" test, an issue of first impression for this court. SKF USA is essentially in agreement with the Commission that differences between authorized goods and gray market goods need not be physical to be material. The intervenors, however, argue that material differences must be physically manifested in the product or its packaging. They assert that the material difference test compares products, not sellers or the services they offer, and that the difference must be shown to be integral to the product.

We agree with SKF USA and the Commission and hold that physical material differences are not required to establish trademark infringement involving gray market goods. That is because trademarked goods originating from the trademark owner may have nonphysical characteristics associated with them, including services, such that similar goods lacking those associated characteristics may be believed by consumers to have originated from the trademark owner and, lacking such traits, may mislead the consumer and damage the owner's goodwill.

Generally, gray market goods are defined as "genuine goods that . . . are of foreign manufacture, bearing a legally affixed foreign trademark that is the same mark as is registered in the United States; gray goods are legally acquired abroad and then imported without the consent of the United States trademark holder." *Gamut,* 200 F.3d at 778.

*Appendix A*

"The principle of gray market law is that the importation of a product that was produced by the owner of the United States trademark or with its consent, but not authorized for sale in the United States, may, in appropriate cases, infringe the United States trademark." *Id.* at 777.

In *Gamut,* a decision of this court involving gray market goods, the Kubota Corporation filed a complaint at the Commission, alleging that Gamut and other respondents violated § 337 of the 1930 Tariff Act by importing from Japan and reselling in the United States used tractors bearing the mark "Kubota" that had been properly affixed in Japan. *Id.* at 780. The ALJ in that case determined that the respondents infringed Kubota's trademark because twenty-four models of the "Kubota" tractors imported by Gamut differed materially from the corresponding tractors imported by Kubota. Specifically, the ALJ found that the respondents' imported Japanese tractors lacked English language warning labels and that Kubota-US dealers did not have English language operator or service manuals for those models. *Id.* The ALJ determined that those differences in labeling, service, and parts for the imported Kubota tractors were in part relevant to the finding of a material difference between the authorized tractors and the gray market, used tractors. *Id.* at 782. The ALJ concluded that the respondents had infringed Kubota's trademark and violated § 337. *Id.* Gamut and the other respondent companies appealed, and the full Commission affirmed.

We began our analysis in *Gamut* with the fundamental inquiry in gray market goods cases: "whether there are differences between the foreign and domestic product and if

so whether the differences are material." *Id.* at 779. We stated that "[t]he courts have applied a low threshold of materiality, requiring no more than showing that consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, for such differences would suffice to erode the goodwill of the domestic source." *Id.* That inquiry involves a question of fact.

The rationale underlying that minimal requirement is that "[a]ny higher threshold would endanger a manufacturer's investment in product goodwill and unduly subject consumers to potential confusion by severing the tie between a manufacturer's protected mark and its associated bundle of traits." *Id.* at 779-80 (quoting *Societe Des Produits Nestle v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir.1992) ("*Nestle*")). We explained that "the consuming public, associating a trademark with goods having certain characteristics, would be likely to be confused or deceived by goods bearing the same mark but having materially different characteristics." *Id.* at 779. Thus, by distinguishing domestic goods from gray market goods that bear a material difference, thereby finding trademark infringement, we upheld "the two fundamental policies of trademark law: to protect the consumer and to safeguard the goodwill of the producer." *Id.* at 782. Accordingly, because we held that "[s]ubstantial evidence supports the Commission's finding that consumers would consider the differences between the used imported tractors and the authorized Kubota-US tractors to be important to their purchasing decision, and thus material," *id.*, we affirmed the Commission's decision.

We here carry that reasoning a step further and make explicit what may have only been implicit in *Gamut*. We hence conclude that, consistent with the *Gamut* decision, material differences that preclude infringement by gray goods may be physical or nonphysical.

Our reasoning is as follows: first, although the differences in labeling, parts, and structural features of the tractors certainly were mostly physical in nature, importantly, the *Gamut* court used only the term "material differences," and not "physical differences," to characterize the precise test to be applied in the gray market goods context. Second, as the Commission in the instant case correctly pointed out, although some of the material differences in *Gamut* were indeed physical, we there relied on cases that held that nonphysical material differences are sufficient to avoid trademark infringement. For example, the *Gamut* decision relied on *Nestle*, a First Circuit case in which that court stated in a footnote, "[w]e think the appropriate test should not be strictly limited to physical differences. Other sorts of differences—differences in, say, warranty protection or service commitments—may well render products non-identical in the relevant Lanham Act sense." 982 F.2d at 639 n. 7. Additionally, the *Gamut* court stated that "[d]ifferences in labeling and other written materials have been deemed material, on the criteria of likelihood of consumer confusion and concerns for the effect of failed consumer expectations on the trademark holder's reputation and goodwill," favorably citing *Osawa & Co. v. B & H Photo*, 589 F.Supp. 1163 (S.D.N.Y.1984), and *Fender Musical Instruments Corp. v. Unlimited Music Center, Inc.*, 35 USPQ2d 1053 (D.Conn.1995). *Gamut*, 200 F.3d at 781. In those cases,

material differences were found based in part on differences in services and guarantees between authorized and gray market goods, as well as accompanying documents such as instruction manuals, nonphysical traits that were nevertheless determined to constitute a material difference to consumers.

We are thus satisfied that the Commission's conclusion that nonphysical traits may constitute material differences is consistent with our case law and promotes the sound, established policies underlying trademark protection. Accordingly, we hold that material differences need not be physical in order to establish trademark infringement in gray market cases.

SKF USA argues that the Commission misinterpreted *Martin's Herend* and wrongly required that "all or substantially all" of SKF USA's authorized bearings be accompanied by the post-sale technical and engineering support, the allegedly material difference that distinguished SKF USA's goods from the gray goods. It alleges that the Commission erroneously combined the material difference standard in "confusion-as-to-source" case law with the diminution of value standard in "deteriorated product" cases such as *Warner-Lambert*. That elevated standard, SKF USA argues, constituted reversible legal error. Instead, SKF USA asserts that the proper inquiry should have been simply whether the mark holder has established that a material difference exists between categories of products. It maintains that it has met that burden and that fully 97.4% of its sales—the undisputed 87.4% of authorized sales, plus sales by Chicago Rawhide to the vehicle service market—are supported by post-sale technical services, consisting of both

on-site services and hotline support, while respondents did not provide any such post-sale support for any of their sales. Thus, SKF USA asserts, it has shown that a sufficient number of its goods are materially different from the gray goods. Citing *Nitro Leisure Products, L.L.C. v. Acushnet Co.*, 341 F.3d 1356 (Fed.Cir.2003), SKF USA also argues that the Commission failed to account for channel-specific factors in SKF USA's sales. That is, it argues that consumers who purchase bearings in the alternate channels of distribution have different expectations of service from SKF USA than do consumers from traditional, authorized distributors, so the alternate channels should not be considered in the aggregate. Furthermore, SKF USA contends that the Commission's statement that certain of its goods were not "predictably and consistently" accompanied by the asserted material difference was in error. It argues that the Commission's findings relating to SKF USA's dealings in the surplus market and the vehicle service market were unsupported by the record.

The Commission responds that it properly required SKF USA to show that substantially all of its authorized bearings were accompanied by the characteristics claimed to be a material difference, citing *Martin's Herend.* Because not all of the SKF USA-authorized bearings were accompanied by the post-sale services, the Commission asserts that it was correct in holding that the gray market bearings were identical to SKF USA-authorized bearings and should not be found to infringe SKF USA's trademark. The Commission further argues that the "alternate channels of distribution" argument advanced by SKF USA is not relevant to a "material difference" analysis of trademark infringement. It asserts that

the "material difference" standard focuses on the goods themselves, not their channels of distribution. The Commission contends that, because some portion of the SKF-marked bearings are not predictably and consistently supported by post-sale technical services, especially the bearings sold through the alternate channels, those services cannot be considered integral to the goods and cannot be relied upon to show a material difference between SKF USA's bearings and the respondents' bearings. It argues that SKF USA's argument that consumer expectations are different in the alternate channels of distribution lacks evidentiary support.

First, we agree with the Commission that a plaintiff in a gray market trademark infringement case must establish that all or substantially all of its sales are accompanied by the asserted material difference in order to show that its goods are materially different. If less than all or substantially all of a trademark owner's products possess the material difference, then the trademark owner has placed into the stream of commerce a substantial quantity of goods that are or may be the same or similar to those of the importer, and then there is no material difference. Indeed, if it cannot be said that substantially all of a trademark owner's goods are accompanied by the asserted characteristic, then it may properly be concluded that, in effect, there exists no material difference between the trademark owner's goods and the allegedly infringing goods. We have reasoned before that "the consuming public, associating a trademark with goods having certain characteristics, would be likely to be confused or deceived by goods bearing the same mark but having materially different characteristics." *Gamut*, 200 F.3d at 779.

Conversely, then, a trademark owner's argument that consumers would be confused by gray goods lacking an asserted material difference from the authorized goods is inconsistent with the owner's own sale of marked goods also lacking that material difference from its own authorized goods. To permit recovery by a trademark owner when less than "substantially all" of its goods bear the material difference from the gray goods thus would allow the owner itself to contribute to the confusion by consumers that it accuses gray market importers of creating.

*Martin's Herend,* a decision of a sister circuit, supports that requirement, and we find its reasoning persuasive. In that case, a United States trademark owner alleged that a defendant company importing or selling similarly-marked fine porcelain goods infringed its mark. The defendant argued that the trademark owner itself had sold some of the same porcelain pieces and that there was no material difference between the defendant's product and the trademark owner's product. But the Fifth Circuit held that the defendant was properly held liable for trademark infringement for selling pieces not offered by the trademark owner because those pieces were materially different from the pieces the owner was selling. 112 F.3d at 1302. However, the Fifth Circuit also held that "[a]s long as plaintiffs have ever approved a piece for importation and sale in this country, [the defendant] is free to sell any individual piece of the same quality from the same product line." *Id.* at 1304. The court reasoned that "[t]he Lanham Act protects the trademark [but] it does not protect the exclusive distributorship agreement *per se.*" *Id.* In effect, the Fifth Circuit segregated the trademark owner's

porcelain items into product lines that were materially different from the defendant's imports and those that were not.

The Commission argues that in *Martin's Herend,* the sale of even one authorized porcelain piece would have resulted in the denial of relief with respect to all porcelain pieces of "the same quality from the same product line." In the present case, the Commission asserts, the requirement that "all or substantially all" of a plaintiff's goods be accompanied by the alleged material difference in order to seek relief under trademark infringement is entirely consistent with the Fifth Circuit's reasoning. In *Martin's Herend* as well as in the present case, the sale by the trademark owner of marked goods that lack the alleged material difference weakens the owner's argument that similar sales by others would damage its mark. Indeed, such a sale may result in the conclusion that the characteristic is not integral to the goods and cannot be the proper basis for the material difference standard.

We reject SKF USA's attempts to distinguish *Martin's Herend* by arguing that that case involved physical differences, was based on specific product lines, and did not involve complex channels of distribution. SKF USA argues that no cases have required a trademark owner to establish that all of its products are accompanied by the material differences in order to prevail. However, we do not read the Commission's determination to set forth such a strict rule, and we do not go so far as *Martin's Herend* to hold that the sale of even one authorized item lacking a material difference defeats infringement. Instead, the "all or *substantially all*" benchmark recognizes that something less than 100%

compliance will suffice and certainly permits a small amount of nonconforming goods. A single sale of a nonconforming item typically should not defeat a trademark owner's protection. Accordingly, we agree with the Commission that the test of "all or substantially all" is a fair interpretation of the material difference standard, and we expressly adopt the Commission's holding that a trademark owner must show that all or substantially all of its authorized goods are accompanied by each of the claimed material differences to satisfy that standard.

We also disagree with SKF USA that the Commission wrongly applied *Warner-Lambert* to require further diminishment of its mark's value. In that case, the Second Circuit held that for a trademark holder "[t]o be entitled to relief against a later seller of non-conforming goods, such a trademark holder must show that the later sales measurably diminish the value of an already partially devalued mark." *Warner-Lambert,* 86 F.3d at 7. SKF USA argued before the Commission that *Warner-Lambert* stood "for the proposition that a trademark owner's non-adherence to its policies or practices does not defeat a claim of infringement if those non-conforming sales are insignificant." *Final Determination,* slip op. at 50. In essence, it argued that its nonconforming sales should be ignored because they were in *de minimis* amounts. We do not construe the Commission's statements regarding that case as a misapplication of the further diminishment test, and we instead determine that the Commission properly applied the material difference standard.

B. *Sales of SKF USA's Bearings*

Next, we consider the Commission's factual findings relating to the amount of SKF USA's sales that allegedly lacked post-sale support. It was undisputed that 87.4% of SKF USA's sales to authorized distributors were supported by the "full panoply" of post-sale technical and engineering services. *Final Determination,* slip op. at 44-45, 54-55. Regarding the remaining sales, SKF USA sold bearings to the vehicle service market through its Chicago Rawhide business unit. As stated by the Commission, the ALJ found that Chicago Rawhide provided on-site technical services and its own hotline services to its customers. *Id.*, slip op. at 42-43. In addition, it was able to provide SKF USA's hotline services to customers when necessary. *Id.*, slip op. at 43. However, the Commission was troubled by the fact that Chicago Rawhide's on-site services were available only on a discretionary basis, based on the size of the customer and whether the customer had a record of multiple problems. *Id.*, slip op. at 42-43. The Commission relied on the ALJ's remand findings that Chicago Rawhide's on-site technical services were available on a discretionary basis and depended "on the size of the customer and/or whether a customer has had multiple problems." *Id.* The Commission also agreed with the respondents' argument that "even in instances where a downstream end user is aware of SKF USA's post-sale technical and engineering services, . . . there is no guarantee that the end user will consistently and predictably *receive* post-sale technical support services in connection with its SKF bearing purchases." *Id.*, slip op. at 48, 51-52. The Commission thoroughly considered the evidence, including the remand findings made by the ALJ. Although it found that

SKF USA presented evidence on the differences in the alternate markets, the Commission determined that "the record contains little probative evidence on consumer expectations, [and] we do not base our decision on consumer expectations." *Id.*, slip op. at 57. It concluded that because the provision of post-sale services by SKF USA or its business unit Chicago Rawhide was discretionary, a consumer was not assured that the goods were "predictably and consistently" accompanied by the post-sale services, and hence that all or substantially all of SKF USA's goods were not accompanied by them. The determinations by the Commission that, because the Chicago Rawhide post-sale services were discretionary, they were not predictably and consistently available to purchasers, and that all or substantially all of the goods were not accompanied by the services are findings of fact, subject to substantial evidence deference by this court. We conclude that those findings were supported by substantial evidence and we must therefore affirm them.

Additionally, the Commission determined that Roller Bearing Company/Tyson Bearing Company provided its own technical services, and that it found "SKF USA's argument that RBC/Tyson provided equivalent post-sale services to those of SKF USA somewhat disingenuous in the face of SKF USA's stated position that no respondent can provide equivalent services to those of SKF USA because SKF USA's services are *per se* superior to any services that others could provide." *Id.*, slip op. at 49. The Commission also found that "SKF USA's bearings do not differ materially from respondents' bearings" because "SKF USA has authorized the sale of SKF USA marked bearings by nonauthorized

distributors, gray market distributors (including respondents), surplus distributors, and RBC/Tyson which we find are not predictably and consistently accompanied by post-sale technical and engineering services." *Id.*, slip op. at 63. Those are also findings of fact to which we defer.

Finally, we disagree with SKF USA that the Commission erred by focusing too heavily on the services provided to the so-called "alternate channels of distribution." The material difference standard focuses on differences in the goods themselves, not differences in their channels of distribution or the consumer expectations in those channels. *Nitro Leisure Products,* upon which SKF USA relies, is inapposite; that case dealt with used or refurbished goods, and the trial court in that case did not use a material difference standard. 341 F.3d at 1364 ("The *Champion* Court recognizes that consumers do not expect used or refurbished goods to be the same as new goods and that for such goods, 'material differences' do not necessarily measure consumer confusion."). We discern no error in the Commission's findings or its reliance on the ALJ's factual findings, and we do not disturb those findings on appeal. We therefore conclude that the Commission made no error of law and that its fact-findings were supported by substantial evidence.

We have considered Appellant's remaining arguments and are not persuaded. Accordingly, we affirm the determination of the Commission and hold that SKF USA has not established that the respondent companies violated § 337 by reason of trademark infringement.

*Appendix A*

## CONCLUSION

For the aforementioned reasons, we affirm the Commission's determination that SKF USA did not establish a material difference between its own products and those of the respondents based on post-sale technical and engineering services. We thus affirm the Commission's determination that there was no § 337 violation in the import of the instant ball bearings.

*AFFIRMED*

## APPENDIX B — OPINION OF THE UNITED STATES INTERNATIONAL TRADE COMMISSION DATED MAY 24, 2004

**PUBLIC VERSION**

**UNITED STATES INTERNATIONAL TRADE COMMISSION**
**Washington, D.C. 20436**

**Inv. No. 337-TA-469**

**In the Matter of**

**CERTAIN BEARINGS AND PACKAGING THEREOF**

### OPINION

The presiding administrative law judge (ALJ) issued a final initial determination (ID) finding a violation of section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 ("section 337") by reason of infringement of complainant's registered and common law trademarks and false designation of source by four respondents in the importation of gray market bearings. "Gray market" products are lawfully affixed with a trademark in their country of origin, but are imported into the United States without the consent of the U.S. trademark owner. The ALJ also found that laches prevented the issuance of cease and desist orders barring sales of inventory acquired before SKF USA's complaint was filed. Upon review, we reverse the ALJ's determination that section 337 has been violated, and do not reach the issue of whether laches should be applied in this investigation to deny any particular form of relief to complainant.

*Appendix B*

## BACKGROUND

The Commission instituted this investigation on April 16, 2002, based on a complaint filed by SKF USA, Inc. (SKF USA) of Norristown, PA against fourteen respondents. *67 Fed. Reg.* 18632 (2002). Four respondents remain in the investigation; ten respondents have either settled with complainant or have been found in default. The complaint, as supplemented, alleged violations of section 337 in the importation into the United States, sale for importation, and sale within the United States after importation of certain bearings by reason of: (1) infringement of U.S. Trademark Registration Nos. 502,839, 502,840, 1,944,843, and 2,053,722 in violation of section 32 of the Lanham Act, 15 U.S.C. § 1114(1)(a); (2) infringement of common law trademarks; (3) false representation of source in violation of section 43(a)(1)(A) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A); (4) dilution of registered and common law trademarks in violation of section 43(c)(1), 15 U.S.C. § 1125 (c)(1); (5) false advertising in violation of section 43(a)(1)(B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B); and (6) passing off.[1]

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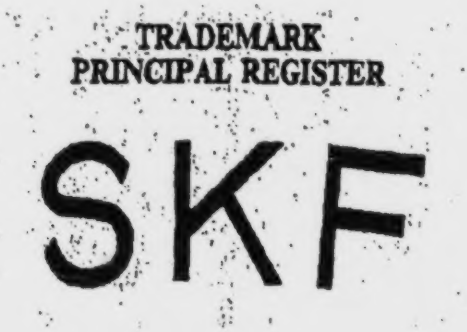
1. In addition, a count denoted "unfair pecuniary benefits" concerning respondents' allegedly benefitting from the lowered antidumping duties achieved by SKF USA was dismissed by the Commission on September 23, 2002.

*Appendix B*

Complainant asserted the following four registered trademarks in this investigation:




**'839 Mark**

**'840 Mark**

*Appendix B*

'843 Mark

'722 Mark

The '839 and '840 marks cover the "SKF" name in varying stylized forms. The '843 and '722 marks cover the distinctive blue, red, and white design and SKF logo, respectively. SKF USA also claims common law trademark rights in the same marks.

The ALJ found that the bearings at issue in this investigation are bearings etched with the SKF mark and often sold in packaging bearing one or more SKF trademarks. ID at 13. The accused bearings are sold by entities having common corporate control with complainant. As is the case with gray market imports, the SKF trademarks are lawfully applied to the imported bearings in their country of origin; however, the bearings have been imported into the United States without the consent of the U.S. trademark owner, complainant SKF USA. ID at 13.

SKF USA manufactures SKF-marked bearings in the United States and imports SKF-marked bearings that are manufactured abroad by SKF Manufacturing Units ("MUs"). SKF USA and the MUs are owned by the same parent

company, AB SKF, which is incorporated under the laws of Sweden. ID at 9. SKF USA sells bearings at all levels of the market, both directly to large original equipment manufacturers (OEMs) and to end users through a network of authorized distributors. SKF USA also sells its bearings to distributors that are not authorized SKF USA distributors. ID at 67-68. SKF USA has itself imported bearings manufactured by foreign MUs, ID at 58, and complainant's authorized distributors have purchased gray market bearings, including some from respondents. ID at 66-67.

The ALJ found a violation of section 337 by reason of infringement of SKF's registered and common law trademarks and false designation of source by four respondents, viz., Bearings Limited (BL), Bohls Bearing and Transmission Service (Bohls), CST Bearing Company (CST), and McGuire Bearings Company (McGuire), and recommended issuance of a general exclusion order and cease and desist orders to the respondents found in violation. The ALJ found, and the parties agreed, that a claim of false designation of source under the Lanham Act, 15 U.S.C. § 1125(a)(1)(A), is based on the same "material differences" test used for trademark infringement in the gray market context. Accordingly, the ALJ's finding of a violation of section 337 due to false representation of source was based on the same reasoning and evidence on which he found gray market trademark infringement. ID at 151. The ALJ found that complainant had not carried its burden in proving false advertising or trademark dilution. ID at 155 and 162, respectively. Complainant withdrew its claim of passing off, and the ALJ ruled that there was no violation based on that claim. ID at 163.

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Petitions for review were filed by the complainant, the Commission investigative attorney (IA), and the four remaining respondents, who filed a joint petition for review covering common issues. Respondent CST filed an additional petition concerning the affirmative defense of equitable estoppel as it applies to CST only. Complainant SKF USA designated its petition "contingent," explaining that while it was satisfied with the ALJ's ID, it wanted to bring certain errors to the Commission's attention in the event that the Commission determined to review the ID. All parties filed responses to the petitions on April 28, 2003.

On May 27, 2003, the Commission determined to review the issues of common law and registered trademark infringement, false designation of source, and laches. During its review, the Commission determined that it needed additional information and so remanded the case to the ALJ for further fact finding on August 6, 2003. On December 30, 2003, the ALJ completed his fact finding. On January 12, 2004, the parties filed comments on the ALJ's findings. The parties filed response comments on January 20, 2004.

**STANDARD ON REVIEW**

Once the Commission determines to review an ID, its review is conducted under *a de novo* standard. *Certain Polyethylene Terephthalate Yarn and Products Containing Same*, Inv. No. 337-TA-457, Commission Opinion at 9 (June 18, 2002). Upon review the "Commission has 'all the powers which it would have in making the initial determination,' except where the issues are limited on notice or by rule." *Certain Flash Memory Circuits and Products*

*Containing Same, Inv.* No. 337-TA-382, Commission Opinion on the Issues Under Review and on Remedy, the Public Interest, and Bonding at 9-10 (June 2, 1997), USITC Pub. 3046 (July 1997) (quoting *Certain Acid-Washed Denim Garments and Accessories,* Inv. No. 337-TA-324, Commission Opinion at 5 (Nov. 1992)). Commission practice in this regard is consistent with the Administrative Procedure Act. *Certain EPROM, EEPROM, Flash Memory, and Flash Microcontroller Semiconductor Devices and Products Containing Same,* Inv. No. 337-TA-395, Commission Opinion at 6 (Dec. 11, 2000); *see also* 5 U.S.C. § 557(b).

Upon review, "the Commission may affirm, reverse, modify, set aside or remand for further proceedings, in whole or in part, the initial determination of the administrative law judge. The Commission may also make any findings or conclusions that in its judgment are proper based on the record in the proceeding." 19 C.F.R. § 210.45. This rule reflects the fact that the Commission is not an appellate court, but is the body responsible for making the final agency decision. On appeal, only the Commission's final decision is at issue. *Fischer & Porter Co. v. USITC,* 831 F.2d 1574, 1576-77 (Fed. Cir. 1987).

## THE COMMISSION'S REVIEW AND REMAND

### I. *The Parameters of the Commission's Review*

The Commission determined to review the issues of common law and statutory trademark infringement, false designation of source, and laches. The Commission did not review the ALJ's determinations: (1) that there was no

violation of section 337 based on false advertising or trademark dilution, or passing off (a claim withdrawn by SKF USA); (2) that the Commission has jurisdiction over the bearings, by virtue of their importation, and over the respondents; (3) that respondents did not establish the affirmative defenses of estoppel, acquiescence, or unclean hands; and (4) that SKF USA established a threat of economic injury (if a violation is found). These determinations became the Commission's final determinations by operation of rule when the Commission declined to review them. 19 C.F.R. § 210.42(h). The Commission also affirmed ALJ Order No. 95 which disqualified complainant's expert witness on quality control.

The Commission's notice of review requested the parties to brief several questions concerning the ALJ's rulings on material differences in warranty, product recall procedures, and post-sale technical and engineering services, as well as the issues of remedy, the public interest, and bonding in the event that the Commission determined there is a violation of section 337. 68 *Fed. Reg.* 32766 ( June 2, 2003). Upon review of the parties' submissions, it became apparent that a significant volume of authorized SKF-marked bearings that are put into the U.S. market by complainant SKF USA may not be accompanied by the post-sale services that SKF USA alleges constitute a material difference between its bearings and the bearings of respondents. These sales include sales by SKF USA division Chicago Rawhide, sales of authorized bearings by distributors that are not authorized SKF distributors, sales on the surplus market, and sales made by Roller Bearing Company/Tyson Bearing Company (RBC/

Tyson).[2] The Commission therefore ordered the ALJ to make additional findings on remand concerning those sales.

## II. *Issues Encompassed by the Commission's Review*

### A. *General Gray Market Trademark Issues*

#### 1. *The ID*

The ALJ determined that the asserted U.S. trademarks are valid and owned by SKF USA, a finding that is not disputed by the parties. He found that SKF USA's registration of the marks with the U.S. Patent and Trademark Office clarified the ambiguity as to which party owns the trademarks in the United States by expressing an intention that SKF USA, not AB SKF, owns the marks in the United States. Accordingly, the ALJ found that SKF USA, not AB SKF, possesses the exclusive right to use the marks in commerce in the United States. He also found that the registrations have become incontestable as a matter of law. ID at 40, citing 15 U.S.C. § 1115(b).

The ALJ found that the issue of whether the good will associated with the marks inures to the benefit of SKF USA alone or to the SKF Group and AB SKF as a whole depends on whether there are material differences between the authorized SKF USA bearings and the unauthorized SKF brand bearings imported and sold by respondents. ID at 43, relying on *Certain Agricultural Tractors Under 50 Power*

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2. SKF USA licensed RBC/Tyson to use the SKF trademark as part of its sale of a production line to RBC/Tyson.

*Take-Off Horsepower,* Inv. No. 337-TA-380, ID at 13, USITC Pub. No. 3026 (March 1997) *("Tractors"), affirmed sub nom. Gamut Trading Co. v. US. International Trade Commission,* 200 F.3d 775 (Fed. Cir. *1999)* (*"Gamut"*). Thus, he found that SKF USA can prevent the importation and sale of the gray market bearings only if the gray market bearings are materially different from the authorized goods. ID at 45-46. He found that the presence or absence of material differences between the authorized product and the gray market product drives the infringement analysis, not the corporate relationship between AB SKF and SKF USA.. ID at 46.

**2. *Analysis***

"The term 'gray market goods' refers to genuine goods that . . . are of foreign manufacture, bearing a legally affixed foreign trademark that is the same mark as is registered in the United States; gray goods are legally acquired abroad and then imported without the consent of the U.S. trademark holder." *Gamut,* 200 F.3d at 778, *citing K-Mart v. Cartier, Inc.,* 486 U.S. 281, 286-87 (1987) *(K-Mart).* Respondents argue that the goodwill in the SKF trademark inures to the benefit of all SKF Group companies worldwide, not only SKF USA. They cite testimony showing that AB SKF imposes standards that are followed by all SKF Group companies. Clark, Tr. 4585:16 -4586:1; RX-0291. They also note that SKF USA imports [ ] percent of the bearings that it sells in the United States from foreign MUs of AB SKF, citing ID at 58. Respondents argue that since SKF USA and the foreign MUs are under common control, SKF USA cannot prevent the importation of gray market goods under the Supreme Court's holding in *K-Mart.* Respondents assert that

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*K-Mart* holds that commonly controlled entities cannot prevent the importation of genuine trademarked goods, and submit that *Gamut* held that the common control exception gives way only when there are material differences. Respondents also argue that the "first sale" doctrine prevents a finding of infringement here because the trademark rights were extinguished upon the first sale of the bearings at issue by the foreign MUs. These arguments are based on respondents' contention that their bearings are not materially different from the authorized bearings.

The IA and SKF USA counter that *K-Mart* dealt exclusively with the issue of "whether the Secretary of the Treasury's regulation permitting the importation of certain gray-market goods, 19 CFR § 133.21 (1987), is a reasonable interpretation of section 526 of the Tariff Act of 1930." *K-Mart,* 486 U.S. at 285. They argue that *K-Mart* is limited to determining whether the Customs regulations implementing section 526 were reasonable, and that the Supreme Court explicitly did not consider the Lanham Act in *K-Mart.* 486 U.S. at 290 n.3. Moreover, the IA and SKF USA argue that subsequent precedent makes it clear that *K-Mart* does not apply in the Lanham Act context, citing, e.g., *Lever Bros. Co. v. United States,* 981 F.2d 1330 (D.C. Cir. 1993) (*Lever II*), which noted the Supreme Court's statement to that effect. Finally, the IA points out that Customs has amended the very regulation at issue in *K-Mart* to make it clear that Customs will now bar physically materially different goods otherwise subject to the "common control" exception. 19 C.F.R. § 133.23; 64 *Fed. Reg.* 9058 (Feb. 24, 1999) (adopting the so-called "Lever Rule"). The IA and SKF USA submit that the first sale doctrine is

territorial in nature and that a sale outside the United States does not excuse the importation of goods that infringe a U.S. trademark, *citing Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1303 (5th Cir. 1997).

In gray market cases the question of trademark infringement by commonly controlled entities turns on the existence of "material differences" between the authorized products and the gray market products, *Gamut*, 200 F.3d at 779. A material difference is a difference that consumers are likely to find significant when purchasing the product because such differences would suffice to erode the goodwill of the domestic source. *Id.* The Federal Circuit considered the issues of common corporate control and the first sale doctrine in *Gamut* and held that the "basic question in gray market cases concerning goods of foreign origin is not whether the trademark was validly affixed, but whether there are differences between the foreign and domestic product and if so whether the differences are material." *Id.* Respondents have not demonstrated any defect in the ALJ's conclusion that, under *Gamut*, the question of gray market trademark infringement turns on the material differences test. Accordingly, we determine that the doctrines of common control and first sale do not apply if there are material differences between the authorized products and respondents' products, and we affirm the ALJ's finding that resolution of the infringement issue depends on whether there are material differences between the SKF-brand bearings sold by SKF USA and the gray market bearings sold by respondents. In order to establish gray market trademark infringement, SKF USA must demonstrate that material differences exist between its bearings and those of the respondents.

We also affirm the ALJ's finding that bearing purchasers are highly sophisticated consumers. ID at 79. This finding was not disputed by the parties.

**B.** ***Material Differences***

**1.** ***Whether There Are Any Physical Material Differences Between SKF USA's Bearings and Respondents' Gray Market Bearings***

**a.** ***The ID***

The ALJ found no physical differences between SKF USA's bearings and the gray market bearings imported by respondents. He rejected complainant's argument that there are physical differences between the two groups of bearings in that respondents do not sell the JEM-type bearing, a sealed bearing having a particular type of lubricant and unique internal clearances, on the ground that not all SKF USA bearings are of the JEM type. ID at 57. He rejected SKF USA's argument that a material physical difference exists because respondents sell old bearings, finding that precedent supports a determination that shelf life is a matter of quality control rather than a physical difference. ID at 57. He also rejected complainant's argument that respondents' bearings are materially different because some are etched with the word "MALAYSIA," finding that SKF USA had itself sold bearings with identical markings. ID at 58.

The ALJ concluded that substantial and probative record evidence demonstrates that SKF USA sells SKF-brand bearings that are not physically different from the SKF-brand

bearings that respondents sell. ID at 58. Accordingly, he found no gray market trademark infringement due to physical material differences. The ALJ also found that there were no physical differences between SKF USA's bearings and the gray market bearings of respondents because SKF USA also imports bearings from foreign MUs. He found that over [ ] percent of the bearings sold by SKF USA within the past five years were manufactured abroad. ID at 58, referencing FF 20, Jt. Stip. No. 3, ¶ 2.

**b.** ***Analysis***

SKF USA argues that the ALJ erred in treating shelf life as a quality control issue rather than as a physical difference. According to SKF USA, respondents sell old bearings that are physically different from new bearings because of their age. SKF USA states that some models of bearings are sealed and the grease is added at the time of manufacture. According to SKF USA, when these bearings age, the grease may degrade, thus making the bearings physically different from newer bearings.

The IA and respondents point out that the federal courts have consistently treated shelf life as a component of quality control rather than as a physical difference, *citing Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996) ("*Warner-Lambert*") (addressing the sale of stale cough drops as a quality control issue); *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 642 (1st Cir. 1992) (addressing the sale of expired candies as part of quality control); *Iberia Foods Corp. v. Romeo,* 150 F.3d 298, 304 (3d Cir. 1998) (addressing sale of dated cleaning products).

They also point out that the ALJ found no quality control differences between SKF USA's bearings and the gray market bearings, and submit that, even if shelf life were treated as a physical difference, the ALJ found that SKF USA failed to prove that there were material differences in the shelf lives of the authorized and gray market bearings.

Precedent cited by the IA and respondents supports the proposition that shelf life is properly analyzed as a component of quality control rather than as a physical difference. Moreover, as we discuss below, we affirm the ALJ's finding that SKF USA established no material differences based on shelf life, when he considered the issue as part of his discussion of quality control. Thus, even if shelf life were properly considered to be a physical difference, we find that complainant has not established the existence of any material differences based on shelf life.

We make one modification to the ALJ's analysis of the issue of physical differences. In discussing the Commission's determination in *Tractors*, the ID states:

> the Commission sustained the Administrative Law Judge's Initial Determination on the facts in *Tractors* that the evidence failed to show 'that any of the 20 [unauthorized] KBT models . . . is materially different from *the closest corresponding [authorized] KTC model* with respect to any of the differences found to be 'material' in the ID,' save one non-physical material difference. *Id.* (emphasis added).

ID at 59. In fact, the Commission stated:

> We therefore find that evidence on the record does not demonstrate that any of the 20 [unauthorized ] KBT models identified . . . is materially different from the closest corresponding [authorized] KTC model with respect to any of the differences found to be 'material' in the ID, aside from having Japanese-language labels.

*Tractors*, Commission Opinion at 14. The Commission, however, did not characterize the Japanese-language labels as a non-physical difference, rather it stated, "[i]n our view, the labels attached to a tractor at sale are not a non-physical or aftermarket item like the availability of replacement parts, service, or operator's manuals, but rather an integral part of the tractor, *i.e.*, a physical difference." *Tractors* at 9. We therefore modify the ID accordingly.

**2. *Whether as a Matter of Law a Trademark Owner Can Prohibit the Importation of Physically Identical Trademarked Products That Are Produced by an Affiliated, Commonly-Controlled Entity***

**a. *The ID***

The ALJ found that "[i]t is well established in Commission and Federal Circuit precedent that the "material differences" analysis of gray market trademark infringement under the Lanham Act can encompass non-physical differences," ID at 124, citing *Gamut*, 200 F.3d at 781. He also found it was settled that "when 'material differences'

exist between the authorized product and the unauthorized product, trademark infringement can be found 'even when the holders of the domestic and foreign trademarks are related companies,'" *Id.* citing *Gamut*, 200 F.3d at 779. Nevertheless, the ALJ found this to be a case of first impression as to whether trademark infringement can be found where there are no material physical differences, only one non-physical material difference, and the gray market products are manufactured by firms that are controlled by the same entity that controls the trademark holder. ID at 125.

The ALJ interpreted the Federal Circuit's decision in *Gamut* to indicate that the lack of a physical difference between the products would not prevent a finding of infringement in this case, although *Gamut* does not so expressly hold.[3] He found that a trademark holder has the burden of proving, by a preponderance of the evidence, that identified differences are "material" ones, in that "consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, for such differences would suffice to erode the goodwill of the domestic source." ID at 125, citing *Gamut*, 200 F.3d at 779. He found that even one non-physical material difference between SKF USA's bearings and respondents' gray market bearings can support a finding of trademark infringement, ID at 125, citing *Tractors*, Commission Opinion at 10 ("[T]he courts have stated that a single material difference is sufficient to establish trademark

3. *Gamut* affirmed the Commission's determination in *Tractors*, in which the Commission found at least one physical material difference as to each tractor found to infringe the asserted trademark. *Tractors*, Comm. Opinion at 9-10.

infringement."). ID at 125. He found this to be the case even though SKF USA is a related company to AB SKF and the foreign SKF Group MUs that supply physically identical bearings to both SKF USA and respondents. ID at 125.

**b.** ***Analysis***

Complainant SKF USA asserts that both legal precedent and policy considerations support the conclusion that physical differences are not required to find gray market infringement or false designation of source. SKF USA maintains that no case has held that physical differences are required to find infringement by gray market goods. It argues that, in fact, because the imported product is genuine in a gray market case, there is a greater likelihood that a U.S. consumer will expect the full panoply of services and guarantees that are provided by the trademark owner when it purchases a gray market product.

Complainant notes that in *Gamut,* the Federal Circuit highlighted several non-physical differences in services and support between the gray market tractors and the authorized tractors and did not use the word "physical differences" in its decision. Complaint also asserts that the Federal Circuit did not find a difference in labeling to be a physical difference. This assertion, however, ignores the fact that the *Gamut* court affirmed the Commission's determination, which in turn held that the differences in labeling were physical differences. *Tractors,* Commission Opinion at 9.

Complainant cites two federal district court cases, both from the U.S. District Court for the Southern District of New

York, that found gray market trademark infringement even though the gray market and authorized goods were physically identical. Complainant notes that the first case, *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984), was cited as persuasive authority in *Gamut*. The second case is *Ahava (USA), Inc. v. J. W.G., Ltd.*, 250 F. Supp. 2d 366 (S.D.N.Y. 2003). SKF USA also cites the statement by the *Nestle* court that "[w]e think that the appropriate test should not be strictly limited to physical differences. Other sorts of differences — differences in, say, warranty protection or service commitments — may well render products non-identical in the relevant Lanham Act sense, (citations omitted)." *Nestle*, 982 F.2d 633, 639, n.7. Complainant acknowledges, however, that the *Nestle* case actually turned on physical differences.

Complainant submits that, although the vast majority of gray market cases involve gray market products that are physically different from the authorized goods, courts have relied on non-physical differences, when present, as much as physical differences in finding infringement.[4] Complainant

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4. Complainant cites *Goldie Electrical, Inc. v. Loto Corp.*, 2000 U.S. Dist. LEXIS 18594 (S.D.N.Y. 2000) (finding of infringement based on warranties, repair, and maintenance services, which the court found to be integral components of quality control efforts); *Fender Musical Instruments Corp. v. Unlimited Music Center, Inc.* 1995 U.S. Dist. LEXIS 15746 (D.Conn. Feb 16, 1995) (despite presence of physical differences, the court's infringement holding cited only service differences); and *Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp. 2d 231, *vacated on other grounds*, 175 F. Supp. 2d 95 (D.Mass. 2001) (the gray market goods did not contain the serial number and another marking found on the authorized pens, (Cont'd)

submits that in many other cases, courts cited a wide variety of physical and non-physical differences as bases for infringement, but no particular material difference seemed to drive the outcome.[5]

Complainant argues that as a policy matter the Commission should reject a *per se* rule that would require the presence of a physical material difference in order to find trademark infringement. It points out that no court has adopted such a *per se* rule and that the test for gray market trademark infringement in the Federal Circuit is whether "consumers would be likely to consider the differences between the foreign and domestic products to be significant

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(Cont'd)

but the court also relied on the non-physical difference of product recall procedures, which were integral to the mark holder's overall quality control efforts).

5. Complainant cites, *e.g.*, *Certain Cigarettes and Packaging Thereof*, 2000 ITC LEXIS 319 (U.S.I.T.C. Oct. 16, 2000) (citing differences in product flavor, packaging, quality control procedures, product return policies, nightclub promotions, and direct mail initiatives); *R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc.*, 1999 U.S. Dist. LEXIS 10706 (N.D. Ill. June 30, 1999) (citing differences in formulation, ingredients, packaging, promotional awards, advertising programs, warranties, and post-manufacture quality control procedures); *Phillip Morris Inc. v. Allen Distributors, Inc.*, 48 F. Supp. 2d 844 (S.D. Ind. 1999) (differences in packaging and quality control); *Pepsico, Inc. v. Pacific Produce, Ltd.*, 2000 U.S. Dist. LEXIS 12085 (D. Nev. May 4, 2000); (differences in bottle labels, quality control, marketing and advertising efforts, and bottle return policies); *Pepsico, Inc. v. Nostalgia Products Corp.*, 1990 U.S. Dist. LEXIS 18990 (N.D. Ill. Dec. 20, 1990) (same).

when purchasing the product," *Gamut*, 200 F.3d at 779. SKF USA submits that there is no reason to presume that non-physical differences cannot confuse consumers in the absence of physical differences, and contends that subtle differences are more likely to be confusing than overt physical differences. SKF USA also notes that courts have recognized that a mark holder is damaged if gray marketeers free ride on a mark holder's advertising and goodwill, citing *Osawa*, 589 F. Supp. at 1169, and argues that there is no reason to presume that a mark holder's good will is safe from attack so long as there are no physical differences.

The IA argues that a finding of material differences based solely on non-physical differences is fully consistent with both the law and the policy behind section 337 and the Lanham Act as applied to gray market goods. He submits that trademark law protects against the diminishment of the markholder's reputation by sales of lower-quality gray market products, regardless of whether the lower quality derives from physical or non-physical attributes of the products.

The IA notes that the courts have identified two key bases for granting trademark protection: (1) protection of consumers from confusion and deceit, and (2) protection of trademark holders from misappropriation of their goodwill, citing *Gamut*, 200 F.3d 775, 782 (Fed. Cir. 1999) ("We conclude that the Commission applied the correct standard, for this standard implements the two fundamental policies of trademark law: to protect the consumer and to safeguard the goodwill of the producer.") and *Nestle*, 982 F.2d 633, 636 (1st Cir. 1992). The IA argues that the importation and sale of gray market goods that have non-

physical material differences from authorized goods clearly misappropriate the goodwill that SKF USA has built up in its trademarks.

The IA submits that non-physical differences are among the many differences that may confuse consumers, and notes that the Federal Circuit has made it clear that "the consuming public, associating a trademark with goods having certain characteristics, would be likely to be confused or deceived by goods bearing the same mark but having materially different characteristics." *Gamut,* 200 F.3d at 779. He asserts that the Lanham Act's goal of protecting consumers from confusion will not be well-served if a gray marketeer is permitted to continue selling materially different goods under the manufacturer's trademarks, regardless of whether the material differences are physical or non-physical. He submits that it should not matter whether that difference is physical or non-physical in nature so long as it is of the type that consumers are likely to find significant, *i.e.*, a material difference, *citing Gamut,* 200 F.3d at 779. The IA acknowledges that there have been cases in which only physical differences have been at issue.[6] However, he contends that none of these cases can be read to stand for the proposition that non-physical differences *cannot* be material,

6. The IA cites *Martin's Herend,* 112 F.3d 1296 (barring the importation of materially different ceramic figurines, but permitting the import of identical products); *Weil Ceramics & Glass, Inc. v. Dash,* 878 F.2d 659 (3d Cir.) (finding no violation in the sale of identical gray market goods), *cert denied,* 493 U.S. 853 (1989); *NEC Elecs., Inc. v. CAL Circuit Abco,* 810 F.2d 1506 (9th Cir.) (finding no violation in the sale of identical gray market goods), *cert. denied,* 484 U.S. 851 (1987).

and he notes that the Commission has held that "a single material difference is sufficient to establish trademark infringement." *Tractors*, Commission Opinion at 13.

Contrary to SKF USA and the IA, who argue that this case is very much like precedent, respondents assert that the Commission must decide an issue of first impression. They frame the issue as one of whether importation of gray market bearings that are physically identical to the authorized bearings, and are manufactured by the same entities for the same market as the authorized bearings, will support a gray market trademark infringement claim brought by a complainant that is commonly controlled with the manufacturers. They contend that the evidence clearly shows that: (1) the SKF bearings at issue are physically identical and were not manufactured especially for any country-specific market (ID at 57-59); (2) the SKF Group has not granted complainant SKF USA an exclusive distributorship in the United States and has not restricted sales by its foreign MUs or distributors (ID at 41 n.3); and (3) SKF bearings imported by complainant, as well as those manufactured by complainant, may reach end users through any number of circuitous and unregulated distribution channels (ID at 50-53), a situation that results in some authorized bearings not being accompanied by SKF USA's bundle of services. Respondents submit that, under these circumstances, neither law nor policy provides a basis for finding trademark infringement.

Respondents contend that complainant's focus on "non-physical" differences in the availability of aftermarket services reveals that its true aim is protection of its authorized

distribution network. They argue that U.S. trademark law protects the goodwill of the SKF marks, but may not be used to create for complainant, and thereby for its parent company, a market niche, insulated from intrabrand competition, in the United States. Moreover, they argue that it is inappropriate to use the U.S. Bureau of Customs and Border Protection to enforce a prohibition on imports that could be achieved by private means within the SKF Group.

Respondents assert that no precedent has found material differences on the sole basis of non-physical differences in services bundled with sales of the products at issue. Rather, they assert that every previous gray market case has dealt with physical differences in product composition or in material aspects of product packaging, and that every previous gray market case has addressed differences between products manufactured for the U.S. market and products manufactured for a foreign market. Respondents distinguish *Osawa* because in that case the evidence demonstrated that the defendants had misrepresented that their gray market products were covered by the trademark owner's warranty, *Osawa,* 589 F. Supp. at 1168. Respondents point out that, unlike the sellers in *Osawa,* they have not misrepresented either the availability of services or their status as unauthorized distributors to consumers. Respondents distinguish *Ahava* on the ground that the court in that case focused on allegations concerning quality control, which has a physical dimension, and because the court explicitly noted the absence of common control of the manufacturer and U.S. trademark owner. *Ahava,* 250 F. Supp. 2d at 367.

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Respondents urge that the doctrine of first sale, or trademark exhaustion, and the doctrine of common control are relevant here because those doctrines may be ignored only when there are material differences between the products at issue, citing, *e.g.*, *Gamut,* 200 F.3d at 779 ("when there are material differences between the domestic product and the foreign product bearing the same mark, most of the courts that have had considered the issue have excluded the gray goods, even when the holders of the domestic and foreign trademarks are related companies"). Respondents assert that *Gamut* expressly recognized the existence of the doctrine of common control, but found that the doctrine was inapplicable under the facts of that case, where there were material physical differences between the structure and labeling of tractors manufactured for the Japanese market and tractors manufactured for the U.S. market.

Respondents point out that SKF bearings are intended for the global market and submit that the policies underlying the doctrine of common control must inform the Commission's decision. They urge that the material differences inquiry be conducted in light of *all* of the circumstances of record, including the facts that the bearings at issue already have been sold legitimately by the SKF Group members that affixed the SKF trademark and that the SKF Group members who manufactured and sold the bearings are commonly controlled with complainant. Respondents submit that it is foreseeable that, if complainant is granted relief, many international entities who do business through a wholly-owned U.S. subsidiary will take like measures to gain the anticompetitive advantages of a market niche insulated from intrabrand competition. Respondents submit that it is

significant that Congress, although repeatedly petitioned to render all gray market importation illegal, regardless of common control, has declined to enact such legislation.[7]

Respondents argue that, on a practical level, the fact that "authorized" SKF bearings are physically identical to gray market SKF bearings renders application of the material differences test nearly impossible. They point out that, although complainant alleges that its post-sale services are available to all end users of authorized SKF bearings, the record evidence demonstrates that authorized SKF bearings may reach end users by any number of circuitous channels of distribution. ID at 50-53. Respondents submit that, under such circumstances, it is not credible that complainant or anyone else could differentiate an authorized SKF USA bearing from a physically identical gray market bearing for the purpose of determining whether services are or are not available. Respondents also contend that it is not possible that consumers who have encountered authorized SKF USA bearings under such circumstances would expect SKF USA's services.

We agree with the ALJ that the question of whether material differences can be found in a gray market case based solely on non-physical differences is a matter of first impression for the Commission and the Federal Circuit. SKF

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7. Respondents assert that a proposed amendment to the Lanham Act that would have done away with the doctrine of common control in the context of trademark infringement has four times failed to pass the Senate, *citing* S. 894, 102d Cong., 1st Sess. (1991); S. 626, 101st Cong., 1st Sess. (1989); S. 2903, 100th Cong., 2d Sess. (1988); S. 1671, 100th Cong., 1st Sess. (1987).

USA and the IA cited two district court cases, *Osawa,* and *Ahava,* that found gray market trademark infringement solely on the basis of non-physical differences. Those cases, however, can be distinguished from the case before the Commission. In *Osawa* there were fraudulent misrepresentations concerning service and warranty, *Osawa,* 589 F. Supp at 1168, a situation not found here. In *Ahava,* the manufacturer of the allegedly infringing goods was not under common control with the trademark owner. *Ahava,* 250 F. Supp. 2d at 367, 369.

The Ninth Circuit appears to require physical differences between authorized goods and gray market goods in order to find Lanham Act violations. In *NEC Electronics, Inc. v. CAL Circuit Abco,* 810 F.2d 1506, 1509 (9th Cir.), *cert. denied,* 484 U.S. 851 (1987), the Ninth Circuit found the goods at issue to be physically identical and reversed a district court infringement finding of infringement based on consumer confusion regarding service and warranties for physically identical products. The *NEC* court stated that if defendants were representing that their goods were covered by *NEC's* warranty, plaintiff's remedy was properly grounded in contract or tort, rather than under the trademark laws. The D.C. Circuit found that section 42 of the Lanham Act bars imports of "physically different" rather than "materially different" goods in a case involving Sunlight® dishwashing liquid and Shield® soap. *Lever Bros. Co. v. United States,* 877 F.2d 101, 109 (D.C. Cir. 1993) (*Lever I*); and *Lever II,* 981 F.2d at 1338. However, the First Circuit's decision in *Nestle,* which is widely followed, found trademark infringement based on a variety of physical differences, yet stated in a footnote that "[w]e think that the appropriate test

should not be strictly limited to physical differences. Other sorts of differences — differences in, say, warranty protection or service commitments — may well render products non-identical in the relevant Lanham Act sense, (citations omitted)." *Nestle,* 982 F.2d 633, 639, n.7.

The Federal Circuit did not state that a physical material difference is necessary to show gray market trademark infringement when it affirmed the Commission's determination in *Gamut,* even though the Commission had held that the difference in labeling on two otherwise identical tractors was a physical difference. The *Gamut* opinion spoke instead only of "material" differences and did not use the term "physical" in its discussion. Moreover, the Federal Circuit relied on *Osawa,* a case in which infringement was found despite the absence of physical material differences, in its discussion of the material differences test. The *Gamut* court also noted *NEC* in its material differences discussion, and relied on *Lever II* in its decision. Perhaps significantly, however, the *Gamut* court referred to the goods at issue in *Lever II* as "materially different," rather than "physically different," as the *Lever II* court had done.

The Federal Circuit relied chiefly on the *Nestle* decision in formulating its test for material differences, i.e., whether there are differences between the foreign and domestic product and if so whether the differences are material. *Gamut,* 200 F.3d at 779-780. The *Gamut* court held that the threshold for materiality was low, requiring no more than a showing that consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, for such differences would

suffice to erode the goodwill of the domestic source. *Id.* The court adopted the *Nestle* view that '[a]ny higher threshold would endanger a manufacturer's investment in product goodwill and unduly subject consumers to potential confusion by severing the tie between a manufacturer's protected mark and its associated bundle of traits." *Id.*, citing *Nestle*, 982 F.2d at 641. Accordingly, we determine that adoption of a *per se* rule that would require a physical material difference in order to find gray market trademark infringement would not be consistent with the reasoning underlying the *Gamut* decision. We therefore determine that physical material differences are not required in order to show gray market infringement, even where the manufacturer of the foreign goods and the U.S. trademark owner are under common control.

We also determine that the basis for a trademark holder's claim of material differences is the goods that the trademark holder allows into the marketplace, because these are the goods that consumers will associate with the trademarks at issue. *Gamut*, 200 F.3d at 779 ("the consuming public, associating a trademark with goods having certain characteristics would be confused by materially different goods bearing the same mark"). The Commission found in *Tractors* that a material difference is a difference that is integral to the goods that the trademark owner puts into U.S. commerce, *i.e.*, a difference that consistently accompanies the trademark owner's goods. *See Tractors*, Commission Opinion at 9 (materially different labels were integral parts of the tractors at issue). As we explain below, application of

these standards leads to a finding of no violation of section 337 in this investigation.[8]

### 3. *Appropriate Channels of Distribution to Be Considered in Determining Whether There Are Material Differences in the Post-Sale Technical and Engineering Support Offered by SKF USA and Respondents*

#### a. *The ID*

The ALJ found a single material difference between authorized SKF bearings and the bearings sold by respondents, viz., post-sale technical and engineering

8. The ID contains a statement that is inconsistent with the material differences test as articulated by the Federal Circuit. The ALJ stated:

> Material differences that are "blatant" cannot cause an erosion of goodwill because blatant differences would not confuse the reasonably prudent consumer. "Material differences," by contrast, are "subtle differences, for it is by the subtle differences that consumers are most easily confused." *See Nestle, supra*, 982 F.2d at 641. Therefore, it is the burden of the trademark holder to traverse between the Scylla of identicalness (including all bundled services embedded in the product at its point of sale) and the Charybdis of blatancy in order to establish subtle "material differences."

ID at 21. The Federal Circuit, however, does not subscribe to this view, holding that "[a]s precedent illustrates, differences that may be readily apparent to consumers may nevertheless be material." *Gamut*, 200 F. 2d at 781. Accordingly, we do not adopt this statement by the ALJ.

services, and further found that this material difference supported a presumption of a likelihood of confusion. ID at 77-80. The ALJ found that respondents did not rebut the presumption that the differences in post-sale technical and engineering services were material by showing such services were not important to purchasers. ID at 80. He therefore found infringement and a violation of section 337 based on material differences in post-sale technical and engineering services. ID at 80.

The post-sale technical and engineering services on which the ALJ relied include on-site support by trained industry specialists and technical support by way of a telephone hotline. ID at 77-79. The ALJ did not include SKF USA's "failure analysis" as a post-sale (or warranty) service because he deemed it to be an ancillary service that is provided only upon payment of a fee. ID at 77, n.13; FF 81; FF 181.

As part of his findings concerning on-site technical services, the ALJ found that SKF USA employs a group of field engineers who specialize in particular industries. ID at 77; FF 82. These "industry specialists" include engineers who have expertise in the equipment used in pulp and paper mills, petrochemical plants, and steel mills. ID at 77; FF 83. The ALJ found that these industry specialists provide on-going technical and engineering assistance to end users who purchase SKF-marked bearings from SKF USA authorized distributors. ID at 77; FF 86.

The ALJ found that the SKF USA telephone hotline answers questions from distributors and end users concerning

the maintenance, installation, and lubrication of SKF products. ID at 80. FF 102. He found that it is undisputed that the SKF USA hotline is designed to serve only customers of SKF USA authorized distributors.[9] ID at 79; FF 101. The customer enters a five-digit customer number, which he has procured from his SKF USA authorized distributor, when he accesses the hotline. ID at 78; FF 100. The customer number assures the caller of a preferential place in the telephone queue. Tr. 498.

The ALJ found that anyone can call the SKF hotline, but any caller is not *ipso facto* entitled to receive technical assistance. FF 495; Snyder, Tr. 7017:8-7019:12. He found that SKF USA instituted the use of a "black list" to prevent use of the hotline by unauthorized customers ID at 78; FF 103. The black list contains the names of bearings distributors

9. Throughout the ID, the term "authorized distributor" is used by the ALJ and the parties to mean distributors that are authorized to sell SKF bearings purchased from SKF USA under the terms and conditions of contracts between the distributors and SKF USA. ID at 92. See FF 247, CX-1064 (Industrial Distributorship Agreement). The ID uses the term "unauthorized distributor" to describe a distributor that does not have an Industrial Distributor Agreement with SKF USA, as well as to describe gray marketers, including respondents. The ID, as well as the submissions from the parties, sometimes uses the term "authorized bearing" to mean any bearing that SKF USA has either manufactured or imported. These bearings are sometimes sold to distributors that do not have an Industrial Distributorship Agreement with SKF USA. At other times the ID appears to use the term "authorized bearing" to refer to a bearing that is sold by either SKF USA or its authorized distributors. Gray market bearings may become authorized in this sense if they are acquired by an authorized SKF USA dealer.

that SKF USA has cause to believe purchase gray market bearings. CX-2113C. The black list was drawn up by SKF USA's counsel and instituted by SKF USA in July 2002, four months after SKF USA filed its section 337 complaint with the Commission. Worden 496:16-497:25. Technicians who answer the hotline are instructed to refuse to give information to black list distributors and their customers. Worden Tr. 497. The ALJ found:

> a significant number of unauthorized customers are unaware of the fact that the SKF hotline is inaccessible to them because the names of their unauthorized distributors appear on SKF USA's recently instituted "black list," which is designed to thwart unauthorized use of the hotline. Thus, their reliance upon SKF USA's technical and engineering support, which they consider to be important, will be frustrated."

ID at 75.[10]

The ALJ found a material difference between the authorized bearings and the gray market bearings in that access to the SKF USA hotline by purchasers of authorized SKF bearings is assured, whereas access to the SKF USA hotline by purchasers of gray market bearings is not. ID at 75. The ALJ rejected respondents' argument that the SKF USA hotline is still essentially available to all purchasers of SKF bearings, and therefore cannot be a material

10. The term "unauthorized customers" appears to refer to customers who have purchased bearings from a company on the black list.

difference. He found that this argument fails because "if a consumer purchases SKF bearings from an unauthorized source believing she will have access to the SKF hotline without impediment, her expectations will be dashed causing confusion and damaging the goodwill of the SKF trademarks." ID at 79.

The issue of whether post-sale technical and engineering services consistently and predictably accompany SKF USA's bearings involves a consideration of the channels of distribution through which authorized bearings reach end users.[11] The ALJ rejected SKF USA's position that only its own operations and not those of its authorized distributors must be considered in the material differences analysis. He found that since SKF USA seeks a remedy that would affect all U.S. markets and not just the markets served by respondents, the comparison of differences must be made at all levels. ID at 50. He therefore rejected SKF USA's argument that sales by its Chicago Rawhide division, which sells to the vehicle service market ("VSM"), also known as the automotive aftermarket (for cars) and heavy duty aftermarket (for trucks and other commercial vehicles), should be excluded from the analysis. ID at 52. The ALJ found that, when determining whether material differences between authorized and unauthorized goods are confusing to consumers, the proper comparison is between (i) bearings authorized to carry the SKF trademarks that are sold by SKF USA and its authorized distributors, including those that are

11. As noted below, the channels of distribution also affect, to a lesser extent, the determination as to whether other post-sale services, such as warranty service and product recall, consistently accompany the authorized product.

sold by Chicago Rawhide, and (ii) unauthorized gray market bearings that are imported into the United States and sold by respondents. ID at 52.

The ALJ further found that the relevant purchasers for the purpose of analyzing material differences between SKF USA's authorized bearings and respondents' unauthorized bearings are end-users of such products and resale distributors who buy such products from SKF USA, its distributors, and Chicago Rawhide in all markets, including the industrial aftermarket, the VSM, and the OEM market. ID at 53. The ALJ found that relevant purchasers do not include those who repurchase such products further downstream in the chain of distribution of any market. ID at 53. Thus, he excluded the purchasers of authorized SKF bearings from nonauthorized distributors who acquired the authorized bearings in downstream distribution from his analysis. He supported his analysis by stating that SKF USA could not control those channels of distribution, even though SKF USA is responsible for the presence of those bearings in the U.S. market. The ALJ noted respondents' argument that, because SKF USA and its authorized distributors buy from and sell to unauthorized distributors, there can be no material difference between authorized and unauthorized SKF bearings, citing ID at 78, but found the argument unavailing because his analysis considered only bearings sold by SKF USA and its distributors. In discussing respondents' position on post-sale services, the ALJ stated:

> It appears that Respondents rely on the global argument that because SKF USA and SKF USA authorized distributors buy from and sell to

unauthorized distributors there can be no material difference between authorized and unauthorized SKF bearings. This argument, however, is misplaced because there is a basic difference separating the other alleged bases for material difference and post-sale technical and engineering support. For example, it is certainly true that SKF bearings pass between SKF USA and SKF USA authorized distributors and unauthorized distributors to such an extent that it undermines SKF USA's quality controls because significant numbers of SKF bearings are sold to end users that are not subject to quality controls through the distribution chain.

Now contrast that with this issue. It is not disputed that SKF USA will provide post-sale customer support to consumers who buy SKF bearings from SKF USA authorized distributors regardless of where the SKF bearings came from. . . . Thus, if an SKF USA authorized distributor purchases SKF bearings from the gray market and then sells them to an end user, *SKF USA will provide post-sale customer service support despite the fact that the SKF bearings came from the gray market.* This constitutes a clear difference between, for example, SKF USA quality controls, and post-sale technical and engineering services. If an unauthorized distributor sells a SKF bearing to a consumer, and at the point of sale that consumer believes she is entitled to post-sale technical and engineering

> support by virtue of purchasing a genuine SKF bearing, her expectations will be dashed because SKF USA only provides support to those who buy SKF bearings, again regardless of the source, from SKF USA authorized distributors.

ID at 78 (emphasis in original).

The ALJ did not address the issue of whether post-sale services are available to end users of authorized bearings that are originally put into U.S. commerce by SKF USA, but are eventually sold to end users by entities other than authorized distributors. Thus, the ALJ's analysis omits the sales of bearings manufactured by RBC/Tyson which are authorized to be marked "SKF" under a license agreement with SKF USA. Information concerning the volume of sales made under the RBC/Tyson licensing agreement was in the evidentiary record, but the ALJ was evidently unaware of the extent of these sales at the time that he issued the original ID.[12] The ID mentions the agreement only once in a footnote which states:

> From 1999 to 2002, SKF USA and RBC/Tyson Bearing Company ("RBC") were parties to a trademark licensing agreement. The agreement was a temporary arrangement meant only to facilitate the sale of a SKF USA facility in Glasgow, Kentucky to RBC. CRB 70-71. The

12. SKF USA did not disclose its licensing agreement with RBC/Tyson in its complaint, as required by Commission rule 210.12(d), and respondents learned of the agreement during discovery.

> evidence of record contains little beyond the licensing agreement itself and is therefore not dealt with herein. *See* RX-0541C.

ID at 13, n.4. The ALJ's analysis also omits the sales of authorized bearings that are sold by entities that are neither SKF USA, its authorized distributors, nor respondents. These entities include distributors that do not have an Industrial Distributorship Agreement with SKF USA, some of which are surplus distributors.

**b.** ***Analysis***

Complainant asserted that Chicago Rawhide's sales should be excluded from the material differences analysis based on post-sale services (technical and engineering services, warranty, and product recall) because (1) SKF USA and its authorized distributors sell to the industrial aftermarket, (2) Chicago Rawhide sells to the vehicle service market (VSM), and (3) there is virtually no overlap between the two markets. In the original proceedings, respondents attempted to prove that they sold into both the industrial market and the VSM by producing a list of companies which had purchased their bearings, which companies had the word "automotive," or a variation thereof, in their name. The ALJ found this to be insufficient evidence to establish that respondents sold into the VSM. ID at 52, n. 6. We do not agree with the ALJ's implicit finding that respondents have the burden of proof on this issue. Nonetheless, evidence gathered during the remand findings, which is noted below, establishes that respondents do in fact sell into the VSM. Consequently, we determine that Chicago Rawhide's sales

must be included in the material differences analysis for this reason as well as the reason relied on by the ALJ.

Respondents argue that the ALJ unduly restricted the scope of sales of SKF USA authorized product that he deemed to be relevant to his material differences analysis, and as a result committed both legal error and factual error. Respondents argue that where non-physical differences are at issue, the analysis must necessarily place much more emphasis on the points of sale, not just on the products. They argue that because complainant is claiming that its post-sale services are part of a "bundle" that is integral to the product, it is critical to determine exactly what the relevant consumers expect as part of that bundle — *i.e.*, at what points of sale purchasers associate the product they are buying with the complainant and its trademarks, what non-physical characteristics (if any) those purchasers understand to be integral to the trademarked product, and what characteristics are in fact integral to the product itself.

Respondents note that the ALJ properly observed that in defining the authorized products the focus is on "the goods that consumers will associate with the trademarks at issue," ID at 52, and that a "proper trademark infringement analysis cannot automatically be truncated at any particular level of the chain of distribution, nor can it be restricted to any particular level of the chain of distribution. ID at 52. Instead, the analysis "must be applied down the entire chain and across all channels to reach all purchasers who rely upon the trademark as a symbol of a product's source." ID at 50. Respondents argue, however, that the ALJ erred when, despite stating that all channels of distribution should be considered,

he ultimately restricted the scope of relevant authorized products to bearings that are sold by SKF USA, its authorized distributors, and its Chicago Rawhide division, and excluded other types of sales of authorized bearings. These other types of sales included downstream resales by distributors that do not have an Industrial Distributorship Agreement with SKF USA, downstream sales by OEMs, sales by SKF's licensee, RBC/Tyson, sales on the surplus market, and sales by respondents who had settled with SKF USA [ ]. Respondents contend that if the Commission considered these sales in its material differences analysis, it would be clear that SKF USA's post-sale services did not accompany a sizable volume of sales of authorized bearings.

We found that the ALJ's decision to limit his material differences analysis to bearings sold through limited channels of distribution was not consistent with his finding, with which we agree, that "'material differences' should be evaluated by comparing authorized goods to unauthorized goods, not by comparing authorized channels of distribution with unauthorized channels of distribution." ID at 53. Accordingly, we remanded the investigation to the ALJ for further fact finding concerning the authorized bearings that were sold through alternate channels of distribution. We requested that the ALJ make findings of fact concerning sales by RBC/Tyson, sales on the surplus market, and sales by unauthorized (*i.e.*, nonauthorized) distributors. We determined to exclude downstream sales by OEMs because, in our view, the doctrine of first sale likely applies to those sales. We determined not to rely on information contained in the settlement agreements on policy grounds, given the confidential nature of such

information and the possibility that such use of the information could have a chilling effect on settlements in future cases.

## 4. *The Remand*

### a. *Terms of the Remand Order*

The Commission asked the ALJ to make findings on remand concerning:

> (a) The volume of sales made by complainant SKF USA, its divisions, and its authorized distributors to unauthorized bearing distributors, including sales on the surplus market, within the last five (5) years;
>
> (b) The volume of sales of SKF-marked bearings under the Roller Bearing Company/Tyson Bearing Company License Agreement; and
>
> (c) The warranties, product recall procedures, and post-sale technical services that are passed on to the end user with the sales listed in (a) and (b) above.

Commission Order of August 6, 2003.

The parties disputed the meaning of the term "unauthorized bearing distributors" as used in the remand order and the five-year period relevant to the Commission's

remand.[13] SKF USA takes the position that any sale that it makes is *ipso facto* an authorized sale, so therefore any distributors to which it sold bearings were *ipso facto* authorized. Accordingly, SKF USA contends that the term "unauthorized distributor" in the Commission's order refers only to gray marketers, and therefore that only sales to gray marketers were responsive to the Commission's order. SKF USA states that it made only $[ ] in such sales and that those sales were made by mistake. SKF USA argued that its sales to other distributors that did not have an Industrial Distributor Agreement should be classified as sales to various categories of "reseller customers" such as "original equipment servicers" and niche markets such as "agricultural suppliers," and as such, these sales were not included in the Commission's remand order.

Respondents argue that the term "unauthorized distributor" as used in the remand order logically refers to all distributors who do not have an Industrial Distributor Agreement with SKF USA, and maintain that that was the way the term was used in the ID. They submit that the clause "including sales on the surplus market" in the remand order indicates that the Commission wanted information about a broader category of sales other than sales to the gray marketers.

The IA submits that the conflict over the term "unauthorized distributor" is illusory. He states that, in a gray market investigation, the infringement analysis is properly

13. We note that no party filed a request for clarification of the Commission's order, apparently preferring to make their case based on their own interpretation of the order.

based on whether the domestic product that the particular distributor sells has the features that are claimed to distinguish the domestic product from the gray market product. He therefore believes that there is no reason to pigeonhole the distributors of the domestic product in any particular way.

When we issued our remand order, we intended that the term "unauthorized distributor" would refer to distributors that did not have an Industrial Distributor Agreement with SKF USA. We agree with the IA, however, that it is not important how resellers of the domestic product are categorized. Rather, the issue is whether the domestic product has the features that SKF USA claims distinguish its product from those of the gray market. Sales of all domestic products (i.e., authorized by SKF USA) are relevant to our analysis regardless of the category of seller. In order to avoid confusion, we use the term "nonauthorized distributor" to refer to distributors that do not have an Industrial Distributor Agreement, and use the terms "gray market" or "respondents" where appropriate.

The Commission requested information concerning the volume of sales made by SKF USA to nonauthorized distributors over the last five years, and the bundle of services that accompanied those sales. Respondents argue that the Commission requested information on the five-year period preceding the filing of the complaint, March 1997-March 2002, because that is the relevant time for which there is information in the record concerning respondents' sales. SKF USA contends that the five-year period should be measured literally from the date of the remand order, *i.e.*, for the period

of August 1998 to August 2003. The IA argues that the precise time period is not significant and uses data from the entire six and one-half year period from 1997-2003 in making his arguments. The ALJ made alternate findings based on the five years preceding the filing of the complaint on March 11, 2002 (1997-2001), the five years preceding the remand order (August 1998-August 2003), and the total six and one-half year period. The parties' stipulations contain data based on all three periods as well.

We intended in drafting our remand order that the ALJ issue findings concerning the sales made in the relevant channels of distribution in the five years preceding the filing of SKF USA's complaint. Given that the record contains information on respondents' sales during the five years preceding the filing of the complaint, and that SKF USA's sales must be compared to respondents' sales, we determine that the time periods we examine should be consistent. Moreover, it is appropriate to consider the conditions that existed when the complaint was filed. *Bally/Midway Mfg. Co. v. USITC*, 714 F.2d 1117 (Fed. Cir. 1983) (proper date for determining whether a domestic industry exists under section 337 is the date that the complaint is filed). Consequently, our analysis focuses on sales of the domestic product in the alternate channels of distribution during the five-year period 1997-2001.

*Appendix B*

**b. *The Remand Findings on Volume of Sales in the Channels of Distribution of Interest.***

The total bearing sales by SKF USA and its divisions during the years 1997-2001 to both authorized and nonauthorized distributors are as follows:

| | |
|---|---|
| $[ ] SKF USA Bearings Unit. | Jt. Stip. 22, Table 1 |
| $[ ] Chicago Rawhide Division. | Jt. Stip. 19, Table 4 |
| $[ ] MRC Division | FF 394; Jt. Stip. 23 |
| $[ ] TOTAL | |

Sales by SKF USA's Chicago Rawhide are made chiefly into the VSM market. Its sales to nonauthorized VSM distributors totaled $[ ], Jt. Stip. 19, Table 5, or [ ] percent of total SKF USA sales ($[ ]/$[ ]). On remand, respondents established that they sold into the VSM market and that a number of Chicago Rawhide's customers, including its biggest customer [ ],[14] is among the customers identified by respondents.[15] This evidence demonstrates, contrary to

14. *See* Jt. Stip. 19, Table 3.

15. *See, e.g.*, Jt. Stip. 11, Attachments B, C, D (CX-280C, -CX-281C, CX-282C, respectively) at CX-281C p. MGB000703 (McGuire customers include [ ]), CX-281C pp. MGB000528, MGB000529, MGB000535, MGB000772 (various [ ] locations), CX-281C p. MGB000515 ([ ]), CX-281C p. MGB000551 ([ ]), (Cont'd)

SKF USA's assertion, that the VSM and industrial markets in fact overlap. Accordingly, we believe there is no basis for excluding Chicago Rawhide sales from the material differences analysis.

Sales by SKF USA Bearings Unit to distributors on SKF USA's "black list" totaled $[] during the five-year period under review. Jt. Stip. 22, Table 11. The ALJ also found that authorized distributors sold bearings to gray marketers and companies on the black list. FF 413-418, FF 423-425. The evidence indicates that black list companies [ ] and [ ] purchased between $[ ] and $[ ] in bearings from authorized distributors [ ]. FF 493, RX-9013C; RX-9063C. It also indicates that [ ] bought $[ ] in SKF bearings from authorized SKF USA distributors during the period of investigation. FF 424-425. The ALJ's findings indicate that authorized distributors made additional sales to black listed distributors, but there was little specific information concerning the amount of these sales. See FF 413-418, 423. Accordingly, sales to black list companies by either the SKF USA Bearings Unit or SKF USA authorized

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(Cont'd)

CX-280C p. MGB000807, CX-281C pp. MGB000472, MGB000502, MGB000680, MGB000702, MGB000707, MGB000793, CX-282C p. MCGY001645 (various [ ] locations), CX-281C p. MGB000497, CX-282C p. MCGY001642 ([ ]); CX-2569C at, *e.g.*, CSTA000018, CSTA000126, CSTA000175, CSTA000261, CSTA000371, CSTA000402, CSTA000514 (CST customers include [ ]), CX-2570C at CSTA000596, CSTA000599, CSTA000608, CSTA000609, CSTA000620, CSTA000627 ([ ]); Jt. Stip. 19 Table 7 at pp. 7 (Chicago Rawhide customers include [ ]), 8([ ]), 11 ([ ]), 14 ([3]), 15 ([ ]), 18 ([ ]), 19 ([ ]).

distributors total at least approximately [ ] dollars during the period of investigation.

On remand, SKF USA acknowledged that its trademark licensing agreement with RBC/Tyson, which ran from June 1999 to June 2002, has resulted in sales of approximately $[ ] in bearings etched with the SKF trademark, but manufactured by RBC/Tyson. Jt. Stip. 21, ¶ 2. The ALJ's remand findings concerning the surplus market are incomplete. Although he recognized that at least five surplus bearing houses exist in the United States, FF 420, he made findings concerning only one, [ ]. The ALJ found that [ ] purchased $[ ] in bearings from [ ], FF 385, and $[ ] in bearings from [ ] FF 421, for a total of $[ ] between March 1997 and March 2002. Respondents complain that the ALJ limited the time they had for testimony, and that as a consequence only one surplus distributor, [ ] was able to testify. Respondents state that four other witnesses were available at the remand hearing, but that the ALJ would not allow them to testify. At the original hearing, Ben Baker of Baker Bearings testified that there were at least ten surplus dealers in the market. Baker Tr. 4291:12-23. Baker also testified that he estimated the U.S. surplus bearing market (covering all brands of bearings) to total $100 million in sales *per year.* Baker Tr. 4291.

Since SKF USA is indisputably a major player in the U.S. bearings market, it can be reasonably inferred that significantly more than [ ] worth of authorized bearings were sold into the surplus market during the five years at issue. The IA suggests that the size of the surplus market be extrapolated to be five times the amount of sales to [ ]

because the ALJ found that four surplus houses competed with [ ] FF 420. Using this methodology, we find that sales to gray market distributors and the surplus market by SKF USA and its distributors total approximately $[ ] in the five years proceeding the date the complaint was filed.

SKF USA's Bearing Units sold approximately $[ ] in bearings to nonauthorized distributors in the five years preceding the complaint being filed, Jt. Stip. 22, Table 9. [ ] of SKF USA's approximately 70 authorized distributors reported that they sold $[ ] in bearings to nonauthorized distributors during the same time period. Jt. Stip. 20, Table. 1. These [ ] distributors account for [ ] percent of the sales that SKF USA makes to distributors. FF 400. Thus, we determine that the record supports a finding that a total of at least $[ ] in sales of authorized bearings, or approximately [ ] percent of SKF USA's total bearings sales, were sold to nonauthorized distributors during the five-year period under investigation.

**5. *Whether There Are Material Differences Based on Post-Sale Technical and Engineering Services.***

**a. *The ALJ's Remand Findings on Post-Sale Technical and Engineering Services***

The ALJ found that Chicago Rawhide provides on-site technical service to its customers, but that such services are available on a discretionary basis. FF 499. In the majority of cases, Chicago Rawhide's decision on whether to provide on-site technical service to its customers depends on the size of the customer and/or whether a customer has had multiple

problems. FF 499, citing Diggory, Tr. 7186:19-7187:6. The ALJ found that Chicago Rawhide provides its own hotline services to customers and can provide SKF USA's hotline services to its customers when necessary. FF 500-FF 505. There is no evidence that Chicago Rawhide employs any sort of black list.

The ALJ found that neither SKF USA nor its divisions offer post-sale technical services to end users of SKF-marked bearings that are manufactured by RBC/Tysons under the license agreement. Rather, RBC/Tysons provides its own post-sale technical services. FF 524-527. The ALJ found that the RBC/Tyson license agreement with SKF USA [ ]. FF 528. The ALJ found that unless a surplus bearing can be traced back to an authorized distributor, SKF USA does not generally provide technical support for bearings sold into surplus. FF 495. He found that SKF USA cannot generally trace a bearing once it has been sold into surplus. FF 461.

The ALJ made findings on three particular instances of hotline services being provided by SKF USA to entities who had purchased SKF-marked bearings from nonauthorized distributors, FF 484-485, and one case of post-sale technical and engineering services being provided to an end user who had purchased a hearing from respondent McGuire. FF 486-487. He also made broad findings on the issue of whether SKF USA provides technical and engineering support to end users that purchase originally authorized bearings from nonauthorized distributors (including those in the surplus market). He found:

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FF 477. SKF USA's SKF Bearings unit provides technical and engineering support to end users that purchase authorized SKF bearings from SKF USA's Bearings unit, or from unauthorized distributor customers (including those in the surplus market) who have purchased a bearing initially placed into the stream of commerce by SKF USA. Further, the same technical support is provided by SKF USA for SKF and non-SKF bearings that it sells. Snyder, Tr. 6966:7-6968:5, 7007:24-7012:19, 7013-25, 7050-57.

FF 478. SKF USA provides technical support free of charge with sales of SKF bearings (and non-SKF bearings). Support is provided in connection with all sales, including sales to authorized resellers, unauthorized resellers and authorized distributors, who then sell to end users. Snyder, Tr. 6970:16-6971:1, 6988:3-11, 7030:6-7031:5,7033:16-7034:9; CPX-315C.

FF 531. Particularly with respect to on-site post-sale technical support and the SKF hotline, SKF USA has demonstrated that post-sale technical support was either accorded to or knowingly available to end user customers who purchased SKF bearings from unauthorized distributors who in turn acquired SKF bearings through authorized channels. *See* FF. 425, FF. 428, FF. 431, FF. 432, FF. 433, FF. 434, FF. 435, FF. 436, FF. 460, FF. 461, F.F. 464, FF. 465, FF. 466, FF. 468, FF. 469.

As we discuss below, we find that these broad findings are not supported by the record.

**b.** ***Analysis***

**i.** ***Whether Post-Sale Technical and Engineering Services are Consistently Associated with Authorized SKF Bearings Sold Through Alternate Channels of Distribution***

The parties did not dispute that SKF USA's full panoply of post-sale technical and engineering services accompany its direct sales and sales through its authorized distributors. Further, the evidence shows that only respondent McGuire offers any post-sale technical services and that its services are limited. Our decision on whether there are material differences in post-sale technical and engineering services therefore turns on whether the asserted post-sale services are consistently associated with authorized bearings that are sold through the alternate distribution channels which were the subject of the remand findings.

Respondents submit that on-site services by industry specialists do not predictably accompany sales of authorized bearings. Rather, they argue that such on-site services are discretionary on the part of SKF USA, and in fact accompany the sale of bearings made to only the largest or most important customers. Respondents submit that because SKF USA employs specialists in [ ] the following industries, [ ] ID at 77; FF 83, cannot be the case that all industrial purchasers of SKF USA bearings are entitled to on-site services by specialists. Moreover, they maintain that

bearings purchased in the VSM market from SKF USA's Chicago Rawhide division are rarely, if ever, accompanied by on-site services.

Respondents assert that the only evidence that the ALJ has cited to support FF 477 and FF 478, concerning the availability of post-sale services to end users who purchased authorized bearings from nonauthorized distributors, is the self-serving testimony of an SKF USA employee, Snyder. They maintain that the testimony cited by the ALJ and other record evidence confirms that SKF USA will only make its post-sale technical support services available when the end user (or the entity seeking assistance) can "trace" the bearings, in connection with which services are requested, back up the sales channel to SKF USA or its authorized distributors.[16] Respondents argue that this requirement is an often insurmountable hurdle for bearing customers because

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16. *See* 6/13/03 SKF USA Resp. Br., at pp. 42, 45, 49, 59; 6/6/03 SKF USA Review Br., at pp. 53-54; Snyder Tr. 7034:10-22, 7035:22-7036:13, 7036:18-7040:21; Moore Tr. 891:4-21 (requests for technical support must come through an authorized distributor). *See also* Snyder Tr. 6973: 9-16 (SKF USA will provide failure analysis, on-site visits, and other technical support services only if SKF USA can verify that the bearing at issue was purchased through an authorized SKF USA channel), 7031:18-21 (an end user customer of an unauthorized bearing distributor must trace its bearing up the chain to an SKF USA authorized distributor before it is entitled to on-site technical support), 7033:20-22 (SKF USA will provide post-sale on-site services to an end user only if the end user can trace the bearing up the chain of sale to an SKF USA authorized distributor. Even then, the determination of whether that end user will be provided such services is determined by SKF USA on a "case by case" basis).

it is often logistically difficult to determine where a particular bearing was originally sourced, as many distributors and downstream purchasers have multiple sources of supply. Moreover, the end user may not have any direct knowledge as to the source or the sales channel of the bearing at issue.

Respondents contend that complainant's assertion that its services are available with respect to an SKF bearing — regardless of its original U.S. source — if one traces the bearing up the chain of distribution to an authorized distributor demonstrates that complainant defines "authorized SKF bearings" in terms of channels of distribution — *i.e.*, as "bearings with respect to which complainant controls the immediate circumstances of sale," rather than "bearings manufactured or imported by complainant." Respondents contend that making the material differences comparison in terms of characteristics of authorized distributors does not comport with the law.

Respondents argue that the record demonstrates that tracing a bearing up the chain of distribution in order to obtain hotline services may not be easy. For instance, they note the ALJ's finding that [ ], an end user that had purchased an authorized bearing from a nonauthorized distributor, was able to get hotline assistance. FF 484, citing Snyder Tr. 7007:24-7012:19, CX-2814C. Respondents note that Snyder testified as to a chain of events surrounding the hotline calls from [ ]. Snyder Tr. 6964:5-6976:24, 7007:24-7012:21. Specifically, [ ], an employee of [ ], called the SKF USA hotline on a number of occasions for assistance, but was continuously refused services because [ ] was listed on the black list. Because [ ] continued to call and, in

SKF USA's counsel's words, "pester" the hotline for support, several engineers approached Snyder inquiring what to do about [ ]. Snyder testified that after many inquiries he eventually verified that [ ] indeed purchased from authorized distributor [ ], and thereafter instructed the hotline engineers to "go ahead and call him back and give him the response." (Snyder Tr. 7010:7-11.)

Respondents also contend that SKF USA does nothing to inform end users of the availability of the post-sale technical and engineering services, leaving it up to its distributors to decide whether to pass the information along about the post-sale services. Respondents maintain that end users are not made aware of SKF USA's on-site services and hotline, and argue that since end users are not aware of these services, the services cannot be deemed to have been passed on as an integral part of the bearing. Respondents point to evidence that the hotline number is not listed on SKF USA packaging.

Respondents also maintain that SKF USA and its distributors have discretion concerning whether they will provide services and what type of services they will provide, and often base their determination on whether to provide services on whether it is commercially worthwhile to provide services to a particular end user.[17] Thus, even in instances

17. *See, e.g.*, Snyder Tr. 7034 (end users who purchase from unauthorized distributors who purchase from authorized distributors are not automatically entitled to SKF USA's post-sale technical services; "it's a case by case thing."), 7036:7-13 ("if they were buying a million dollars worth of bearings a year and they call and have a

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where a downstream end user is aware of SKF USA's post-sale technical and engineering services, respondents argue that there is no guarantee that the end user will consistently and predictably *receive* post-sale technical support services in connection with its SKF bearing purchases.

Respondents assert that, unless sales to nonauthorized distributors, gray market distributors, the surplus market, and sales by RBC/Tysons are ignored, the post-sale services that SKF USA claims distinguish its products from those of the gray market cannot be considered integral to SKF USA's bearings. Respondents argue that in view of these sales, it is clear that the services offered by complainant and its distributors in fact do not run with the product, but rather are simply a feature of doing business with particular parties.

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problem, they would probably get some attention"), 7014:10-14 ("The level of support they get is based upon the volume of business, the commercial issues, it's part of the strategic strategy of sales and marketing, with the customer base they're in, within that region."), 7035:25-7036:13 (whether an end user would receive on-site training services would depend upon the significance of the end user, in terms of the amount and value of SKF bearings they buy per year), 7037:24-7038:12 (If an end user is unable to convince an authorized distributor to request post-sale technical services from SKF USA on the end user's behalf, SKF USA will take that into consideration and, depending upon the size of the end user and the nature of the service requested, will make a discretionary determination as to whether the end user will be provided any service.), 7039:1-7040:21 (the level of post-sale technical services that SKF USA will provide to any end user depends in part on commercial considerations such as volume of business).

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SKF USA maintains that the ALJ's findings support its position that all its post-sale technical and engineering services are passed on to end users no matter what channel they go through to purchase the authorized bearing. SKF USA argues that RBC/Tyson sales should not be included in the material differences analysis because the license to RBC/Tyson was not a trademark license *per se*, but rather a license to RBC/Tyson to allow it to immediately use the machinery which it had purchased and to retool gradually. It explains that the production line it sold to RBC/Tyson was tooled to manufacture bearings which were marked "SKF." SKF USA states that the license agreement [ ], RX-0541 at ¶ 4. SKF USA asserts that it retained sufficient oversight authority to ensure that there was no damage to the goodwill of the "SKF" mark as a result of RBC/Tyson activities. Moreover, it states that RBC/Tyson provides its own post-sale services to its customers, FF 530.

We reject SKF USA's contention that RBC/Tyson bearings should be ignored. The RBC/Tyson bearings are etched with the SKF mark and are authorized by SKF USA to carry that mark. Because the RBC/Tyson bearings carry the SKF mark, consumers could rightfully expect that the RBC/Tyson bearings carried with them the full panoply of services that accompany authorized SKF USA bearings, whether or not they were aware that RBC/Tyson was the manufacturer. We find SKF USA's argument that RBC/Tyson provided equivalent post-sale services to those of SKF USA somewhat disingenuous in the face of SKF USA's stated position that no respondent can provide equivalent services to those of SKF USA because SKF USA's services are *per se* superior to any services that others could provide.

Accordingly, we include the RBC/Tyson sales in our analysis.

SKF USA and the IA are of the view that it does not matter whether end users are aware of SKF USA's post-sale technical and engineering services or whether they in fact use the services because the mere availability of the post-sale technical services in connection with authorized bearings constitutes a material difference between the authorized and gray market bearings. They also argue that consumers have different expectations for bearings they buy on the surplus market and from RBC/Tyson than they have for other SKF-marked bearings, and that buyers in the VSM market expect to take their vehicle to a garage to be serviced and do not expect on-site services. However, no record evidence supports these arguments.

SKF USA and the IA argue that the volume of bearings that is not indisputably entitled to post-sale services is *de minimis*, and therefore can be ignored by the Commission. They cite *Warner Lambert* for the proposition that a trademark owner's non-adherence to its policies or practices does not defeat a claim of infringement if those non-conforming sales are insignificant. SKF USA argues that the small volume of bearings that are not accompanied by SKF USA post-sale technical and engineering services does not affect consumer expectations.

In making our determination on post-sale technical and engineering services, we are guided by the fact that the trademark holder has the burden of proving, by a preponderance of the evidence, that identified differences are "material" ones in that "consumers would be likely to

consider the differences between the foreign and domestic products to be significant when purchasing the product, for such differences would suffice to erode the goodwill of the domestic source." *Gamut*, 200 F.3d at 779. Thus, respondents do not bear the consequences of any failure to carry the burden of proof on the material differences issue. Moreover, SKF USA, as the proponent of an agency order has the burden of proof on all issues unless otherwise provided by law. 5 U.S.C. § 556(d). Under Commission rule 210.37, 19 C.F.R. § 210.37, the proponent of any factual proposition has the burden of proof with respect to that proposition.

It is undisputed that the channels of distribution in the bearing market are complex. The parties did not challenge the ALJ's findings that SKF USA and its authorized distributors both sell into and buy from the surplus market, that SKF USA and its authorized distributors have purchased gray market bearings, including bearings from respondents, and that gray market distributors, including respondents, have purchased bearings from SKF USA and its authorized distributors. ID at 66. Thus, in considering the asserted material difference of quality control, the ALJ stated that:

> SKF USA knowingly channels SKF bearings to end users via authorized distributors *and* unauthorized distributors. In this way, SKF USA knowingly by-passed its quality controls in order to maximize sales of SKF bearings. As a result, there is no difference due to post-manufacturing quality control between SKF bearings sold through SKF USA authorized distributors and unauthorized distributors because in both cases

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> SKF bearings are not subject to SKF USA quality controls throughout the distribution chain. Moreover, SKF USA provided no evidence that Respondents' sales of SKF bearings reduces the value of the SKF trademarks beyond the diminution resulting from SKF USA's non-conforming sales. In the absence of material differences based on quality controls, there is no likelihood of confusion for that stated reason between SKF bearings sold by SKF USA authorized and unauthorized distributors. Accordingly, SKF failed to establish any trademark violation based on quality control differences.

ID at 70 (emphasis in original). The ALJ found that by knowingly channeling SKF bearings to end users via authorized distributors *and* unauthorized distributors, SKF USA undermines its own quality control. ID at 70. By the same token, we find that SKF USA fails to provide the same level of post-sale technical and engineering support to all authorized bearings because it sells some of its bearings into alternate channels of distribution in which the bearings are not consistently and predictably accompanied by post-sale technical and engineering services.

Thus, the evidence shows that on-site technical services do not predictably and consistently accompany the sales made by Chicago Rawhide ($[ ] in sales), sales to gray market distributors ($[ ]), sales by RBC/Tysons ($[ ] , and an indeterminate volume of sales in the surplus market

conservatively estimated at $[ ],[18] for a total of $[ ] or [ ] percent of SKF USA's total sales. We also draw the inference that on-site technical assistance by industry specialists does not predictably and consistently accompany an indeterminate number of bearings that are sold to end users in industries for which SKF USA does not employ industry specialists.

In addition, at least $[ ] in bearings sales were made to nonauthorized distributors during the period of investigation by SKF USA or its authorized distributors. We find that those sales were not predictably accompanied by on-site technical services because such services cannot be obtained unless the bearing is "traced up the chain of distribution." The Commission has held that a material difference is an integral difference, *Tractors*, Commission Opinion at 9, and in our view, requiring the purchaser to trace the bearings "up the chain of distribution" in order to obtain post-sale technical and engineering services indicates that these services are not integral to the product. The ALJ found, and SKF USA does not dispute, that SKF USA does not prohibit its authorized distributors from selling bearings to unauthorized distributors, but does discourage them from doing so. ID at 69; FF 55. Consequently, we believe it is fair to draw the inference that an end user who purchased a bearing from a nonauthorized distributor would encounter resistance if he tried to "follow the bearing up the chain of

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18. SKF USA has the burden of proof on all factual issues, and so the failure to obtain evidence to address a question asked by the Commission on remand cannot be laid at respondents' feet, barring discovery abuse, which has not been alleged.

sales" to obtain post-sale technical and engineering services from SKF USA. Authorized distributors would be understandably reluctant to disclose to SKF USA that they had sold bearings to nonauthorized distributors, given that SKF USA discourages them from doing so. Moreover, as respondents point out, there are logistical problems in "tracing the bearing up the chain of sales" because bearing distributors do not segregate their bearings according to the source from which they were procured.

We do not adopt FF 531 because it is not supported by any relevant evidence. The ALJ's supports FF 531 with other findings of fact that concern volume of sales, warranty, and recall services, but do not concern post-sale technical and engineering services. We modify FF 478 and FF 479 to conform to the evidence that post-sale technical services are passed on to end users who purchase bearings from nonauthorized distributors only if they can "follow the bearing up the chain of sale" to an authorized distributor, and therefore such services do not predictably accompany these sales.[19] Accordingly, we find that post-sale on-site technical services do not predictably accompany an additional $[ ] in sales of SKF bearings during the period of investigation ([ ] percent of total sales). This brings the total volume of bearing sales that are not predictably accompanied by post-sale on-site technical services to $[ ], or [ ] percent of SKF USA's total sales, even without knowing the full extent of the presence of authorized SKF bearings in the surplus market. We find that there is no basis

19. Any other ALJ findings of fact that may be inconsistent with our determination are also not adopted.

for excluding sales of this magnitude from the material differences analysis, and therefore find that there is no material difference based on post-sale on-site technical services between SKF USA's authorized bearings and respondents' bearings because such services do not consistently and predictably accompany the sale of authorized SKF bearings.

We must also consider whether hotline services constitute a material difference; the evidence indicates that Chicago Rawhide's sales are predictably accompanied by hotline services. FF 500-505. Accordingly, we must determine whether the sales of authorized SKF USA bearings that are not predictably accompanied by hotline technical services can be ignored as *de minimis*. These sales include sales of originally authorized bearings by black list companies, surplus distributors, non authorized distributors, and sales by RBC/Tyson.

SKF USA and the IA do not contend that originally authorized bearings that are sold by gray marketers, on the surplus market, or by RBC/Tyson, are entitled to SKF USA's hotline service. These sales account for approximately $[ ] or [ ] percent of SKF USA's sales in the five years preceding the filing of the complaint. By way of comparison, the four respondents had total sales during the period of investigation of $[ ].[20] Moreover, it is not disputed that the SKF hotline

20. According to complainant's expert on injury, during the period 1997-2002, respondents had the following sales of SKF product: Bearings Limited - $[ ] (1/97-4/02); CST - $[ ] (1/98-6/02); McGuire - $[ ] (1/98-4/02); and Bohls - $[ ] (1/00-3/02), for a total of $[ ]. (CX-2468C, Table 2; Kaplan Tr. 1816:11-1818:5.)

is designed to serve only customers of SKF USA authorized distributors. ID at 79; See Worden, Tr. 448:9-449:14; CX-848; FF 101. Thus, sales of originally authorized bearings by nonauthorized distributors to end users may or may not be accompanied by hotline services depending on whether the buyer can obtain a customer number by tracing the bearing up the chain of sales to an authorized distributor. We thus find that these sales are not consistently and predictably accompanied by technical hotline services. Such sales account for an additional $[ ], for a total of [ ] or [ ] percent of total SKF USA sales. The parties have made arguments as to whether sales of this magnitude can defeat SKF USA's infringement claims. Those arguments are discussed in the following section of this Opinion.

Both SKF USA and respondents made various arguments concerning expectations of the end users concerning post-sale technical and engineering services. For example, SKF USA argues that buyers on the surplus market and buyers of bearings manufactured by RBC/Tyson do not expect SKF USA to provide any post-sale services, including warranty, product recall, and technical services. Respondents argue that because SKF USA does not put information concerning its post-sale services on its product packaging or otherwise inform consumers about the services, consumers do not know about and therefore do not expect post-sale services. In *Gamut,* the Federal Circuit indicated that findings on consumer expectations must be based on substantial evidence. *Gamut,* 200 F.3d at 781. In this case, the parties'

arguments on consumer expectations are based on scant evidence and are little more than attorney argument.[21]

In *Gamut,* the Federal Circuit court held that the threshold for materiality was low, defining a material difference as "a difference that consumers are likely to find

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21. The ALJ made no findings concerning customer expectations regarding the bearings sold in the channels of distribution that were relevant to the remand. The ALJ made one finding, however, concerning consumer expectations regarding sales by authorized distributors. FF 489 states:

> Mr. Acuna confirmed via the video that he took that SKF's technical support was available on authorized sales and that "everybody knows" about the SKF 800 number. Acuna, Tr. at 7821:4-8, 7824:9-12 ("If you buy legit from an authorized distributor, you will get that [bundle of services]. If you're buying from a distributor that's not authorized, SKF is not going to support that.") (from Acuna video CPX-3 15C).

This finding is based on the transcript of a video that was taken by [ ], Mr. Ron Acuna, while the investigation was under review by the Commission. The video was placed in evidence by SKF USA. The video contains Acuna's interviews with unknown persons. One such person states in response to Acuna's question about technical support "Yeah, the 800 number to SKF, you just ask for technical support." Tr. 7821:7-8. Another unknown person states on the video, "[t]o the point, yeah, if you buy legit from an authorized distributor, you will get that. If you're buying from a distributor that not authorized, SKF is not going to support that." Tr. 7824. We reject FF 489 as not supported by reliable evidence. The identities of the interviewees are unknown, their statements were not under oath, and there is no foundation for their comments.

significant when purchasing the product because such differences would suffice to erode the goodwill of the domestic source." *Gamut*, 200 F.3d at 779. We do not interpret the *Gamut* decision to require that actual consumer expectations be taken into account when determining whether material differences exist between the authorized good and the gray market good. Rather, the material differences analysis in *Gamut* is based on whether material differences actually exist between the authorized product and gray market product, and whether those differences are likely to be significant to purchasers. *Gamut*, 200 F.2d at 779. Accordingly, and because the record contains little probative evidence on consumer expectations, we do not base our decision on consumer expectations.

**ii.** ***Whether Substantially All of Complainant's Bearings Must Be Accompanied by Post-Sale Services in Order to Demonstrate a Material Difference.***

SKF USA argues that in order for it to prevail the law does not require that its bundle of services accompany all sales of authorized bearings. While SKF USA does not cite case law specifically concerning post-sale technical and engineering services, it argues that there is analogous precedent involving variations in the mark holder's adherence to quality control standards. SKF USA submits that a trademark owner's non-adherence to its policies or practices with respect to some of its sales does not defeat a claim of infringement if those "non-conforming" sales are insignificant, citing *Warner-Lambert*, 86 F.3d at 7 (2d Cir. 1996) ("[t]he purposes of the Lanham Act would not be fulfilled by requiring trademark holders to establish quality

control procedures that prevent virtually all departures from established norms before affording relief against sellers who fail to abide by those norms").

SKF USA explains that in *Warner-Lambert* a preliminary injunction was issued despite the fact that some of plaintiff's HALLS® cough drops did not comply with the freshness date standard that was alleged to be violated by the infringing goods. 86 F.3d at 7-8. At the district court, evidence was presented that 6 of 18 locations had non-conforming goods, a circumstance which caused the district court to deny plaintiffs claim for a preliminary injunction. The Second Circuit rejected the methodology by which the 6 of 18 locations were determined because the method failed to take into account how much non-conforming product was found at each location, reasoning that a concentration of stale cough drops in one area may do more damage to the trademark than if the same number of stale cough drops were widely distributed. Therefore, the appellate court relied on a different analysis which measured the quantity of the trademark holder's non-conforming product to be 4.4 percent.

SKF USA argues that the issuance of a preliminary injunction in *Warner-Lambert,* even though 4.4 percent of the trademark holders goods were found to be nonconforming, is an indication that the court recognized that *a de minimis* level of nonconforming goods should not preclude relief. SKF USA also argues that 4.4 percent should not be treated as a ceiling on nonconforming goods because the *Warner Lambert* court did not specify the level of nonconformance that would defeat the plaintiffs claim for a

preliminary injunction. SKF USA argues that an even higher level of nonconforming goods should not preclude relief.

The IA also relies on *Warner-Lambert* to argue that the sale of products not subject to the trademark holder's quality control procedures is infringing if: (i) the trademark holder "has established legitimate, substantial, and nonpretextual quality control procedures, (ii) it abides by these procedures, and (iii) the non-conforming sales will diminish the value of the mark." *Warner-Lambert Co.*, 86 F.3d at 6. He acknowledges that this test is directed toward quality control, but submits there is precedent indicating that it may be applicable in situations involving the failure of the alleged infringer to offer technical services, citing *Goldie Elec., Inc.*, 2000 WL 1880327, at *6 (applying the *Warner-Lambert* factors based on differences in "warranty, repair, or maintenance services"); *cf. Sofiman Prods. Co. v. Adobe Sys. Inc.*, 171 F. Supp.2d 1075, 1092-93 (C.D. Cal. 2001) (applying *Warner Lambert* factors based on differences in ability to register products and receive technical support).

The IA argues that SKF USA has a policy of providing technical support for its authorized products, that SKF USA abides by those procedures in that its post-sale technical support is actually made available in connection with its authorized bearings and is provided to any customers who request it. He maintains that, because the gray market sales are equal in volume to the sales on the surplus market and RBC/Tyson (the only sales that he acknowledges may not be accompanied by post-sale services), they necessarily damage SKF USA's trademark by doubling the amount of non-conforming product on the market.

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Respondents argue that complainant must meet a high standard with respect to proof of the bundle of characteristics that are associated by consumers with its products, citing *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA*, 112 F.3d 1296 (5th Cir. 1997), a case that concerns gray market goods. In *Martin's Herend*, the U.S. trademark owner sought to prevent the defendant from importing decorative porcelain objects from the foreign manufacturer of the trademarked goods. The Fifth Circuit held that the trademark owner could not prevent the defendant from importing and selling "goods of the same quality from the same product line" of trademarked pieces of porcelain from any of the Herend product lines that had *ever* been approved for sale in the U.S. by the trademark holder, *i.e.*, was previously imported, offered for sale, or sold by the trademark holder. The court reasoned that the Lanham Act protects the trademark, but not the distributorship *per se*. *Martin's Herend*, 112 F.3d 1296, 1304. Thus, under *Martin's Herend*, if the gray market goods are of the same quality as those put in the marketplace by the trademark holder, the trademark is not damaged and the consumer is not confused as to source.

Respondents submit that the *Warner-Lambert* court indicated that the question of further damage/devaluation of a mark was highly fact specific and was not driven by particular numbers or percentages. *Warner-Lambert* at 7 n.1 (noting that the plaintiff had commissioned a study showing that only 4.4 percent of its product was stale, but indicating that other facts — including the location and concentration of retail outlets — should be evaluated.). Respondents contend that SKF USA has not demonstrated that respondents' sales have damaged the SKF trademark, as

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*Warner Lambert* requires in cases where the trademark holder sells nonconforming goods.

Respondents assert that the record in this investigation reflects [ ] of dollars in sales of originally authorized SKF-marked bearings that are not covered by SKF USA's bundle of services. They contend that, because authorized SKF bearings are routinely sold without the services that SKF USA claims as material differences and because respondents' bearings are physically identical to those bearings, respondents should be permitted to continue to import and sell SKF marked bearings that are just like [ ] of SKF USA authorized bearings. Respondents thus argue that *Martin's Herend* requires SKF USA to show that "substantially all," and arguably *all* of its authorized bearings are accompanied by each of the characteristics that it claims are material differences from the bearings imported and sold by respondents. They contend that, since all of the SKF USA-authorized bearings are not accompanied by post-sale technical and engineering services, their bearings are identical to some of the bearings that SKF USA has approved for sale and therefore should not be found to be infringing.

SKF USA and the IA respond that *Martin's Herend* should not be followed here because the case concerned physical differences, and did not concern complex channels of distribution. They do not, however, present a legal or policy basis to lower the threshold for material differences in the case of non-physical differences. Respondents acknowledge that *Martin's Herend* involved alleged physical differences in porcelain decorative pieces, but submit that there is no legal or policy basis to lower the threshold for complainant

to establish what constitutes the authorized trademarked product in the case of non-physical differences, *i.e.*, what services are integral to and bundled with the product. Respondents argue that the Commission should proceed with even more caution when non-physical differences are involved because of the risk that complainants seeking to invoke the powers of the Commission to limit or eliminate competition would adopt and rely on pretextual services and procedures.

It is true that *Warner-Lambert* held that even if some nonconforming goods "survive" a mark holder's quality control procedures and enter the marketplace, the sale of additional nonconforming product can further devalue the trademark. *Warner-Lambert*, 86 F.3d at 7. However, we do not interpret the case to hold, as SKF USA and the IA argue, that a trademark owner's non-conforming goods can be ignored if they are of *de minimis* amounts. The *Warner-Lambert* court stated:

> This is not to say that the effectiveness of a trademark holder's quality control procedures is irrelevant to the availability of relief. A company that avails itself of wholly effective procedures will generally be entitled to relief against any measurable sales of non-conforming goods. Sales of non-conforming goods will in those circumstances place poor quality goods where none were before and necessarily devalue the mark associated with them. A company with less effective quality control that predictably result in some sales of non-conforming goods will have a

> mark that reflects a value based on the presence in the marketplace of those goods. To be entitled to relief against a later seller of non-conforming goods, such a trademark holder must show that the later sales measurably diminish the value of an already partially devalued mark. *Id.*
>
> * * *
>
> Quality King argues that its intended sales cannot devalue Warner-Lambert's mark because they add only a fraction to the already stale HALLS cough drops already in the market. [footnote omitted]. We believe this issue is a fair ground for litigation at trial.

*Id.* Thus, *Warner-Lambert* stands for the proposition that, in order to be entitled to relief against a later seller of nonconforming goods, a trademark holder who sells nonconforming goods must show that the later sales measurably diminish the value of an already partially devalued mark. *Id.* The level of nonconforming goods is certainly relevant to this analysis, but the *Warner-Lambert* decision to issue a preliminary injunction was not based on a determination that the trademark owner's non-conforming sales were *de minimis*. While the court found that the issue was likely to be decided against the defendant, it reserved for trial the issue of whether the defendant's goods had devalued the HALLS® trademark. *Id.* In the court's view, the decisive issue in deciding to issue the preliminary injunction was the irreparable harm that Warner-Lambert was likely to suffer due to the sale of defendant's stale cough

drops in comparison to the little harm that defendant would incur if it did not sell its inventory. *Warner-Lambert,* 86 F.3d at 8.

In this case, the ALJ found that "SKF USA provided no evidence that Respondents' sales of SKF bearings reduces the value of the SKF trademarks beyond the diminution resulting from SKF USA's non-conforming sales" in the section of his ID concerning quality control. ID at 70. Moreover, in the section of the ID finding no trademark dilution, the ALJ found "there is no empirical evidence in the record that consumers think any less of the SKF trademarks or that SKF trademarks suffer any negative associations because of Respondents' unauthorized sales." ID at 162.[22] SKF USA has provided no basis for overturning those findings, and we therefore affirm them. Consequently, SKF USA cannot prevail under *Warner-Lambert* because that case requires that SKF USA prove that its trademark has been further devalued by respondents' sales, and SKF USA has failed to make this proof.

Furthermore, because SKF USA has authorized the sale of SKF USA marked bearings by nonauthorized distributors, gray market distributors (including respondents), surplus distributors, and RBC/Tyson which we find are not predictably and consistently accompanied by post-sale technical and engineering services, SKF USA's bearings do not differ materially from respondents' bearings on that basis. *Martin's Herend,* 112 F.3d at 1304 (no material difference

22. The ALJ's determination that SKF USA did not establish trademark dilution was not reviewed by the Commission, and has become the Commission's final determination.

found where defendants sell products that are the same as products previously approved for sale in this country by the trademark owner.) Accordingly, we reverse the ALJ's finding of a material difference based on post-sale technical and engineering services.

### 6. *Whether There Are Material Differences in the Warranties Offered by SKF USA and Respondents*

#### a. *The ID and Remand Findings*

The ALJ found no material difference between SKF USA's warranties and respondents' warranties based on his finding that SKF USA had not established that any differences in warranties are "material," *i.e.*, that the differences enhance or diminish the SKF USA's marks in the eyes of the relevant purchaser. ID at 102. The ALJ found that warranty service essentially amounts to replacing defective bearings or issuing credits. ID at 101. FF 167, FF 184, FF 192, FF 198. He rejected SKF USA's argument that a failure analysis that it sometimes performs on returned bearings to determine the cause of the failure is a part of SKF USA's warranty. Rather, he found that the failure analysis was a separate service for which SKF USA charged a fee. ID at 101; FF 181. We affirm this finding.

The ALJ found that respondents BL and McGuire offer a written warranty and that respondents and that respondents CST and Bohls do not have a written warranty. ID at 95. However, the ALJ found that the differences were not material differences for the purposes of trademark infringement because the Uniform Commercial Code (UCC), which has

been adopted in the states where respondents are located, provides warranties of merchantability and fitness that are generally applicable to the bearings sold both by SKF USA and by respondents. ID 95-96. He found that under the UCC the provisions of the warranty would be passed down to the end user through the chain of distribution. ID at 96. Accordingly, the ALJ found no real differences between the warranties offered by complainant and respondents. ID at 95-98. He also found that any differences in warranty are not material because "subtle differences in warranties are not likely to confuse a sophisticated purchaser into thinking that an unauthorized SKF-brand bearing is in fact an authorized one." ID at 100.

The ALJ also relied on *Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp.2d 231, *vacated on other grounds*, 175 F. Supp.2d 95 (D.Mass. 2001). In that case, the manufacturer and trademark holder of high quality and highly priced pens argued that there was a material difference between its authorized pens, which came with a service manual and a two-year warranty certificate, and the unauthorized pens of the defendant retailer who removed the manual and certificate and replaced them with its own allegedly "inferior" warranty. Despite these alleged differences, the court rejected the trademark holder's infringement claim on the ground that there was "no evidence demonstrating substantive inferiority in the [defendant's] warranty." *Montblanc*, 172 F. Supp.2d at 240 and 241 n.10. Here, as in *Montblanc*, the ALJ found no evidence demonstrating that respondents' warranties are inferior to the SKF USA warranty. He also found no evidence to substantiate SKF USA's claim that respondents' warranties, both express

and implied, diminish the reputation of the SKF USA trademarks and are therefore "material" differences. ID at 102. The ALJ concluded that, because SKF USA bears the burden of proving that the differences in warranty policies that it has identified are "material," the lack of evidence as to whether these differences enhance or diminish the SKF marks in the eyes of the relevant purchaser precludes a finding of gray market trademark infringement on the part of respondents. ID at 102.

The ALJ distinguished *Osawa,* relied on by SKF USA and the IA, by noting that in *Osawa* the court's findings were predicated on the nature of the product at issue, sophisticated camera equipment for which buyers expected warranty repair by the manufacturer, and on the defendants' deceptive conduct in leading customers to believe that the trademark owner would provide free warranty service. In addition, the ALJ noted that there was undisputed evidence of actual confusion based on warranty in *Osawa.* He found none of those circumstances present here. ID at 101.

The ALJ also distinguished *Fender Musical Instruments Corp. v. Unlimited Music Center Inc.*, 35 USPQ2d 1053 (D. Conn. 1995), where infringement was found based, *inter alia,* on the grounds that the gray market importer of the trademark holder's imported Japanese electric guitars represented untruthfully to its customers that the trademark holder offered its warranty to the gray market guitars. ID at 101-102, citing *Fender,* 35 USPQ 2d at 1056. Here, the ALJ found that respondents do not untruthfully represent to their customers that SKF USA warrants the bearings that respondents sell. Instead, he found that respondents each offer

their own warranties. He found no evidence that respondents engage in deliberate misrepresentation as a way to trick even sophisticated customers into buying something that they would otherwise avoid buying. ID at 102.

On remand, the ALJ examined additional evidence concerning the warranties offered by SKF USA. He found that different warranty provisions are found in contracts and order forms used by SKF USA for its sales to distributors. FF 436. Notably, the Chicago Rawhide warranty disclaimed "fitness for ordinary purposes." FF 443. The ALJ found that different warranty terms and conditions also appear in the warranty provisions posted on SKF USA's online store, *http://www.ptplace.com*. FF436. He found that the SKF USA warranty provisions appear in the Industrial Distributor Agreement, FF 432, FF 433, FF 434, but are not printed on the bearing box or other materials that accompany the bearing at the point of sale, FF 437, and thus are not communicated to the end user.

The ALJ found that, notwithstanding the differing verbiage, all of SKF USA's warranties are applied by SKF USA in the same way to run for 12 months from the date of purchase by each intermediate sale to distributors, and restarting the 12-month period again when it reaches the end user. FF 438. He found that in order for an end user to return an authorized bearing under the SKF USA warranty that it had purchased from an intermediate reseller, the warranty claim must be sent "back up the chain of distribution" to show that the bearing was originally sold by an SKF USA-authorized distributor. FF 440. He found that an end user with a warranty claim would be instructed to trace the bearing

back to the point at which it was sold by a direct customer of SKF USA, and have that entity call SKF USA to obtain authorization for the warranty claim. FF 441. The only other means of obtaining warranty service would be if SKF USA's customer service department made the discretionary decision that it is commercially expedient to honor that warranty claim "outside the system." FF 441. The ALJ found that during the period of January 1, 1997, to June 30, 2003, a period in which SKF USA sold $[ ] in bearings to its authorized distributors, SKF USA was able to point to only one instance in which a warranty claim was raised and resolved in this manner regarding an end user who had purchased an SKF USA authorized bearing from an intermediate reseller who was not authorized by SKF USA. FF 442. In that instance, the authorized distributor did not consider the matter to be a "warranty" claim at all, but rather a matter of "customer service" designed to keep the customer satisfied. FF 442.

The ALJ's remand findings indicate that RBC/Tyson warranty is substantially different from the SKF USA Industrial Distributor's warranty in that the former runs only 90 days from shipment. FF 445. He found that RBC/Tyson does not offer or pass on the SKF USA warranty to purchasers of SKF-marked bearings FF 446. In fact, the RBC/Tyson License Agreement [ ]. FF 446.

The ALJ found that, unless a surplus bearing can be traced back to an authorized distributor, SKF USA generally does not provide a warranty to SKF USA bearings obtained on the surplus market. FF 462. He also found that surplus bearings generally cannot be tracked. FF 461.

*Appendix B*

**b.** ***Analysis***

After the ALJ issued his additional findings on remand, concluding that there are variations in the written warranties passed on to end users in various categories of sales by SKF USA, SKF USA no longer pressed its earlier arguments that the warranties of respondents CST and Bohls were materially different because they were not written and express. SKF USA also no longer argued that the written warranties of BL and McGuire differed from the UCC warranty because they had disclaimed "fitness for ordinary purposes" in their written warranties in the face of the ALJ's finding that Chicago Rawhide has similarly disclaimed "fitness for an ordinary purpose" in its warranty. In comments filed in response to the ALJ's remand findings, SKF USA argues that "the SKF warranty is, at bottom, a promise — a promise to every purchaser of authorized SKF bearings that if the purchaser has a problem with the bearing, SKF USA will replace the bearing, or refund the purchase price. The warranty is not a piece of paper." SKF USA's Comments on Additional Findings, p. 26, n.20. The IA also acknowledges that "[i]n sum the key difference between the SKF warranty and the warranties offered by respondents is who stands behind it." IA's Comments on Additional Findings at 31.

Respondents argue that there is no basis for finding a *per se* difference in warranties based on the fact that the trademark holder offers the warranty. They argue that adopting this view would mean that any U.S. trademark owner could establish a material difference in warranties merely by offering any warranty. Likewise, they argue that it cannot be assumed that there are material differences in

warranty merely because one warranty is written and another is not. Respondents submit that whether there are material differences based on warranties here should be determined based on whether the terms of respondents warranties are substantially equivalent to SKF USA's warranty, *citing Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp. 2d 231, 240-241, and noting that the ALJ found respondents' warranties to be substantially the same as the warranties of SKF USA. ID at 102. Respondents submit that their warranties also run to the end user and point out that there is no evidence that any respondent has ever refused a warranty claim presented by an end user on an SKF-marked bearing.

On review, we affirm the ALJ's finding that there are no material differences between the warranties offered by SKF USA and the warranties offered by respondents. The remand findings clarify that the warranties of both complainant and respondents are essentially a promise to either replace the bearing, or to issue a credit if the customer is dissatisfied with a bearing. Complainant has the burden of proving material differences, *Gamut*, 200 F.3d at 779 (a trademark holder has the burden of proving, by a preponderance of the evidence, that identified differences are "material" ones, in that "consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, for such differences would suffice to erode the goodwill of the domestic source."). In this case, complainant has come forward with no evidence that any respondent has failed to provide satisfactory warranty service in regard to any SKF-marked bearing that it has sold to any customer.

In our view, the ALJ correctly relied on *Montblanc* for the proposition that no material difference in warranty will be found if the warranties are substantially the same. As the ALJ's remand findings demonstrate, the warranties of both complainant and respondents are essentially a promise to replace or issue a refund for any defective bearing. The ALJ fully and adequately addressed the arguments of the IA and SKF USA that *Osawa* and *Fender* compel a finding of material differences here by correctly distinguishing those cases on the ground that the defendants in those cases had misrepresented that the trademark owner's warranty applied.

As in the case of post-sale technical and engineering services, we determine that requiring the bearing end user to trace the bearing up the chain of distribution until he reaches an authorized distributor that is willing to take the warranty claim to SKF USA demonstrates that the warranty is not an integral characteristic of the bearing. In this regard, we note the remand findings, discussed above, which indicate that [ ] of dollars worth of bearings that were originally authorized by SKF USA were sold through nonauthorized channels during the period of investigation, yet SKF USA was able to point to only one instance where the end user "followed the bearing up the chain" to an authorized distributor. Moreover, the ALJ found that the authorized distributor who eventually satisfied the end user's claim did not consider it to be a warranty claim. Rather, the distributor considered satisfying the claim to be good customer service. FF 442. The ALJ found that SKF USA does not prohibit its authorized distributors from selling to distributors that are not authorized, but does discourage them from doing so. ID at 69. Consequently, we draw the inference that an end

user who had purchased a bearing from a nonauthorized distributor might encounter resistance if he tried to "follow the bearing up the chain of sales" to obtain warranty service from SKF USA through an authorized distributor.

### 7. *Whether There Are Material Differences Between Complainant's and Respondents' Products Based on Product Recall*

#### a. *The ID and Remand Findings*

The ALJ did not find a material difference between the authorized bearings and the gray market bearings based on product recall because he found no evidence that SKF USA's authorized distributors follow any standardized or written recall procedure of their own. ID at 107. Thus, the ALJ found that purchasers face the same situation regardless of whether an SKF-brand bearing is purchased from an authorized distributor or from an unauthorized distributor, *i.e.*, the purchaser does not hear about a recall unless the distributor informs the purchaser about it and SKF USA's own authorized distributors did not predictably follow recall procedures. ID at 108. The ALJ found that SKF USA's procedures fail at the critical point in the distribution chain — the authorized distributor. ID at 109. He found there was no evidence that any authorized distributor follows any standardized or written recall procedure of its own. Thus, he found that when it comes to recalls, the relevant purchaser in the industrial aftermarket faces the same situation irrespective of whether an SKF-brand bearing is purchased from an authorized distributor or a gray market distributor,

*i.e.*, the purchaser does not hear about a recall unless the distributor informs the customer about it. ID at 108.

The ALJ found no record evidence that SKF USA's authorized distributors have informed their customers of recalls of SKF bearings more so than have unauthorized distributors. Nor did he find any record evidence to support a conclusion that the authorized distributors would be more likely to do so. ID at 108. Indeed, the ALJ found that, despite evidence introduced by SKF USA indicating that there have been [ ] recalls of SKF bearings between 1998 and 2001, [ ], one of SKF USA's authorized distributors, testified that he knew of only one recall. ID at 108, citing [ ] Tr. 2335:24-2336:21; FF 233. The manager of the Philadelphia branch of AIT, one of the three major SKF USA authorized distributors, could not remember any SKF recalls during that time period. ID at 108, citing Callahan, Tr. 4778:12-4779:5; FF 234.

The ALJ explained that the case law does not support the notion that recall procedures are "material differences" in and of themselves. ID at 108. Rather, he found that the cases relied on by complainant indicate that the issue of recall in gray market cases is not the actual occurrence or frequency of recalls, but rather "the right to control the quality" of the trademarked product that is protected by the Lanham Act. ID at 108, citing *Davidoff & Cie SA v. PLD International Corp.*, 56 U.S.P.Q.2d 1753, 1757 (S.D. Fla. 2000), aff'd, 263 F.3d 1297 (11th Cir. 2001); *John Paul Mitchell Systems v. Pete-N-Larry's Inc.*, 862 F.Supp. 1020, 1026 (W.D.N.Y. 1994); *Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp. 2d 231, 239-40, *vacated on other grounds*, 175 F. Supp. 2d

95 (D.Mass. 2001). He found that in the cases cited by complainant, the material difference at issue was not the recall procedure that the trademark holder followed, but rather the infringer's obliteration of the product code on the gray good that potentially interfered with the trademark holder's ability to conduct product recalls. The ALJ found no suggestion in the record that respondents have obliterated product or date codes on any of the SKF-brand bearings that they sell. As a result, he found that the cases cited by complainant do not stand for the proposition advanced by SKF USA and the IA, *viz.*, that an internal procedure followed by SKF USA's quality control staff in conducting recalls is a difference that a relevant purchaser in the industrial aftermarket would be likely to consider significant when purchasing the product. ID at 108.

On remand, the Commission asked the ALJ to take evidence and make findings on whether recall procedures were in place concerning SKF-marked bearings that were sold through the alternate channels of distribution that were the subject of the remand. The remand findings do not impact the ALJ's original finding that there is no proof that SKF USA's own authorized distributors have informed their customers of recalls of SKF bearings any more so than have respondents, or that they would be more likely to do so. The findings do, however, illustrate that SKF USA's recall procedures do not extend to the categories of bearings sales that were at issue in the remand.

Thus, the ALJ found that it was SKF USA's policy to notify its direct customers of a recall, regardless of whether they are authorized or nonauthorized distributors. FF 464.

He found it is SKF USA's policy, where possible, to notify some customers of its direct customers of a product recall. FF 465. He found, however, that SKF USA has records only of sales that it makes to its direct customers, and that it cannot trace bearings that have been delivered to its customers' customers. FF 466. SKF USA relies on its direct customers for information concerning the volume of recalled bearings that have been sold by its direct customers to nonauthorized distributors. FF 466.

The ALJ found that during the period from January 1, 1997, to June 30, 2003, during which SKF USA sold $[ ] worth of bearings to its authorized distributors and during which SKF USA initiated [ ] bearing recalls, SKF USA was unable to prove one instance when an end user customer or reseller customer of an authorized distributor was aware of such a recall. FF 468. He also found no evidence that the SKF USA Bearings Unit has sold any recalled product to any reseller customer. FF 467.

The ALJ found that during the period from 1997 to the present Chicago Rawhide, a division of SKF USA, had one instance of a recall involving a bearing that was not an SKF marked bearing, but was packaged in a "bubble box" marked "SKF." FF 469. In that instance, Chicago Rawhide placed notices of the recall to the general public on its website and sent recall notices via direct mailings to its direct customers as well as to the customers of their customers. FF 470. The ALJ also found that MRC, a division of SKF USA, has policies and procedures concerning SKF-marked bearings that are the same as SKF USA's procedures. FF 471. The

ALJ found that SKF USA division MRC has never had to recall an SKF-marked bearing. FF 472.

The ALJ found that the "big three" authorized SKF USA distributors — Kaman, Motion and AIT — have written product recall procedures of their own which they follow in regard to all brands of bearings that they sell. FF 473. They do not follow SKF USA procedures. FF 473. Motion treats bearing recall notices from all manufacturers, including SKF USA, the same way. FF 475. The ALJ found that RBC/Tyson follows its own recall procedures, not those of SKF USA. FF 476.

The ALJ found that unless a bearing can be traced to the surplus house, SKF USA generally cannot implement a product recall on bearings sold into surplus. FF 477. He further found that SKF USA cannot generally trace a bearing once it has been sold into surplus. FF 461.

**b.** ***Analysis***

Despite maintaining during the initial phase of the investigation that its recall procedures were materially different from those of respondents, SKF USA now argues that the recall procedures passed on to the various categories of sales of interest in the remand proceedings are not important. Rather, it argues that the focus should be on the notice received by the customer. SKF USA maintains that the evidence adduced at the hearing demonstrates that its customers and its customers' customers, including end users, receive notification of product recalls. The IA asserts that substantially all of the SKF USA's authorized products are

covered by SKF's recall system. He submits that the only exceptions are the bearings sold by RBC/Tyson and the surplus bearings, which he argues account together for [ ] percent of the authorized SKF bearings, and can be ignored as *de minimis*. Both SKF USA and the IA argue that SKF USA's recall procedures are a material difference under *Warner-Lambert Co.*, 86 F.3d at 6, which held that a trademark holder can prove infringement based on quality control where: (i) the trademark holder "has established legitimate, substantial, and nonpretextual procedures, (ii) it abides by these procedures, and (iii) the non-conforming sales will diminish the value of the mark." *Warner-Lambert*, 86 F.3d at 6.

Respondents argue that the ALJ's remand findings confirm the ID's findings that SKF USA's recall procedures are not predictably passed down to downstream end users. They submit that the remand findings also establish that SKF USA does not have the ability to track sales such that the end users of a bearing subject to a recall will be predictably notified of the recall. They point to FF 466, which states that "SKF USA has records only of sales that it makes to its direct customers and SKF USA cannot trace bearings that have been delivered to its customers' customers." They also point out that the ALJ found no evidence that a recall has ever been carried out in this manner, FF 468, and maintain that ultimately SKF USA's recall procedure amounts to nothing more than a hope that its reseller customers will voluntarily implement adequate recall procedures on their own. Respondents also maintain that the global SKF Group requires its subsidiaries to comply with its policy of notifying purchasers of bearing recalls, Clark Tr. 4594:21-4596:2. They

argue that no evidence indicates that foreign SKF MUs do not follow this policy, and therefore contend that they are as capable as SKF USA or its authorized distributors of notifying consumers of a recall.

Upon review, we affirm the ALJ's finding that, despite SKF USA's asserted procedures, there is no material difference between the recall notice given to end users of bearings who purchase bearings from SKF USA and its distributors and the recall notice given to end users of bearings purchased from respondents. In each case, as the ALJ found, purchasers are not likely to be given notice of bearing recalls. The remand findings do not contradict this conclusion, but instead demonstrate that SKF USA has no particular recall procedure in place as to sales made by nonauthorized downstream distributors, sales on the surplus market, or sales by RBC/Tyson. The remand findings also show that, despite the [ ] recalls of SKF bearings between 1998 and 2003, no bearings were recalled from the alternate distribution channels that were the subject of the Commission's remand. FF 468. Complainant and the IA argue that, under *Warner-Lambert,* product recall constitutes a material difference here. This argument fails because the ALJ correctly found, in our view, that SKF USA's authorized distributors do not abide by SKF USA's recall procedures, and thus do not meet the second prong of the *Warner-Lambert* test. Accordingly, we find that SKF USA has not established a material difference based on recall, and affirm the ALJ's determination on this issue.

*Appendix B*

**8. *Whether There Are Material Differences in Post-Manufacturing Quality Control by Complainant and Respondents***

**a. *The ID***

The ALJ rejected SKF USA's argument that there were material differences in quality control between SKF USA's bearings and the gray market bearings because SKF USA did not show that its quality control procedures were consistently followed by its own authorized distributors. FF 52. Moreover, he found that SKF USA's authorized distributors also purchased bearings from the surplus market and the gray market for resale, and that such bearings were not subject to SKF USA's quality control procedures. ID at 67, FF 35, 36, 37, FF 39, FF 40, FF 41, FF 42, FF 43, FF 44, FF 45, FF 46. Accordingly, the ALJ found that SKF USA failed to establish any material differences based on quality control differences because SKF USA's quality controls were not consistently applied by all its distributors. ID at 70.

In addition, the ALJ also found that SKF USA undermines its quality controls by selling SKF bearings to: (1) unauthorized distributors through its Chicago Rawhide division; (2) unauthorized distributors through SKF USA authorized distributors; and (3) unauthorized distributors directly, including sales to respondents. The ALJ explained that SKF USA knowingly channels SKF hearings to end users via authorized distributors *and* unauthorized distributors, and thereby bypasses its own quality controls in order to maximize sales of SKF bearings. As a result, the ALJ found

that there is no material difference due to quality control between SKF bearings sold through SKF USA authorized distributors and unauthorized distributors and those sold by respondents because in both cases end users purchase SKF bearings that were not subject to SKF USA quality controls throughout the distribution chain. ID at 70.

**b.** ***Analysis***

Complainant SKF USA petitioned for review of the ALJ's determination to treat shelf life as a quality control issue rather than a physical difference and argued that the evidence did not support the ALJ's finding that it had established no material differences in shelf life. The IA and respondents submit that the ALJ properly considered the issue of quality control, including shelf life standards, ID at 65; FF 26, 52, and concluded that SKF USA had not demonstrated material differences based on post-manufacturing quality control. ID at 64-70; FF 25-60. The IA and respondents submit that the ALJ's findings on the issue of shelf life and quality control standards are fully supported by the evidence.

As discussed above, we reject SKF USA's contention that shelf life is to be considered a physical attribute of the bearings at issue. SKF USA also has not demonstrated that the ALJ's finding that its authorized distributors were indifferent to concerns about shelf life and quality control standards is unsupported by the evidence. SKF USA has raised no other issue in regard to the ALJ's determination on quality control. Accordingly, we affirm the ALJ's

determination that there is no material difference between complainant's and respondents' bearings based on post-manufacturing quality control.

**9. *Whether There Are Material Differences in the Pre-Sale Technical and Engineering Support Offered by SKF USA and Respondents.***

**a. *The ID***

The ALJ found that SKF USA failed to support its claim that pre-sale technical services are important to bearings consumers. He also found that SKF USA failed to meet its burden of proving that SKF USA authorized distributors provide such services at the point of sale while respondents do not, and hence he found that pre-sale services do not constitute a material difference between authorized and unauthorized bearings. ID at 77. He found that SKF USA produced evidence that is equivocal at best that its authorized distributors routinely provide pre-sale services to its customers, whereas the record contained anecdotal evidence that SKF USA authorized distributors routinely sell SKF bearings without inquiring about the bearings' application. ID at 76, FF 78.

The ALJ rejected SKF USA's contention that its manufacturing capacity, research and technical staff, and proprietary computer systems make authorized SKF bearings materially different from unauthorized SKF bearings because he found that whatever benefits are gained by those features are passed on to buyers of gray market bearings as well as purchasers of authorized bearings. ID at 76. He found that

application-specific pre-sale services, *i.e.*, services specific to a particular bearing purchase, are rarely, if ever, used, and that SKF authorized distributors routinely sell SKF bearings without providing any such service. ID at 76. He further found that application-specific pre-sale services are only available through SKF USA application engineers and field sales representatives, and then only to large customers and OEMs. ID at 76. Although he found that application-specific pre-sale services are important to consumers, and hence are "material," he found that SKF USA failed to meet its burden of proving that SKF USA authorized distributors provide such services at the point of sale while respondents do not. ID at 77.

**b.** ***Analysis***

Although complainant filed a lengthy contingent petition for review of this issue, it failed to rebut the ALJ's dispositive findings that the benefits of pre-sale engineering services are available to all purchasers of SKF bearings, whether the bearings are authorized or gray market. In regard to the ALJ's finding that application-specific pre-sale services were not predictably available to purchasers of authorized SKF-marked bearings, SKF USA conceded the point, but argued that, even if it were true that its authorized distributors do not reliably provide pre-sale technical assistance, the evidence was clear that SKF USA does provide such assistance, and that respondents do not.

The IA and respondents argue that SKF USA has demonstrated no error in the ALJ's finding that there are no material differences based on pre-sale services between the

bearings of SKF USA and the bearings of respondents. They submit that SKF USA has not presented any compelling arguments as to why pre-sale services, which by definition are supplied before the sale of the bearing, are services that purchasers will be disappointed to learn that they did not receive after they purchase the bearing. In other words, a buyer cannot be confused about the availability of pre-sale services because he knows when he purchases the bearing whether or not he has received pre-sale services. The IA argues that the ALJ's decision is supported by *H.L. Hayden Co. v. Siemens Med. Sys., Inc.*, 879 F.2d 1005, 1023-24 (2d Cir. 1989) (no trademark infringement when there is no deception as to what installation services are included in purchase of dental equipment).

We determine that complainant has demonstrated no error in the ALJ's determination that there are no material differences based on pre-sale services between the authorized bearings and the gray market bearings of respondents. In our view, the ALJ correctly held that pre-sale engineering services benefit all purchasers of SKF bearings, and his finding that application-specific pre-sale services are rarely used is supported by the record. We find that the evidence does not support SKF USA's claim that pre-sale services predictably accompany the purchases bearings from authorized distributors. Moreover, because a purchaser knows at the time of purchase whether he has received pre-sale application-specific services, it is not likely that he will be confused as to whether he is entitled to pre-sale services. Accordingly, we affirm the ALJ's initial determination on this issue.

*Appendix B*

**10. *Actual Confusion***

A trademark holder "need only show that a likelihood of confusion is in prospect; a showing of actual confusion is not required." *Nestle*, 982 F.2d at 640. Nevertheless, "[c]onvincing evidence of significant actual confusion occurring under actual marketplace conditions is the best evidence of a likelihood of confusion." 3 J.T. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:13 (2001).

The ALJ found evidence of actual confusion based on assured access to SKF USA's technical support hotline. He found that "the evidence shows that attempts at such access by unauthorized bearing purchasers are made but, because of SKF USA's blacklist, they are not successful." ID at 134, citing FF 75; FF 76; FF 77; FF 343. We reject this finding because it is not supported by the evidence. The sole evidentiary support for FF 75, FF 76, FF 77, and FF 343 is the testimony of an SKF USA employee, Charles Worden.[23]

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23. FF. 75. Charles Worden testified that the SKF hotline receives roughly [ ] calls a day, [ ] % of which are from end users. See Worden, Tr. 449:22-450:20.

FF 76 Worden testified that some of those calls are from "potential customers, customers that have been purchasing from our competitors or have been instructed to call us by one of our competitors." *See* Worden, Tr. 454:5-16.

FF 77 Worden testified that these calls are "not very common" and "very infrequent." *See* Worden, Tr. 454:18.

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Worden, however, did not testify that purchasers of gray market bearings had called the hotline or had been refused service. Rather, Worden testified that the hotline technicians had been directed to refuse to give advice to anyone who calls that is on the blacklist or states that he is a customer of a distributor on the blacklist. Tr. 497. Worden also testified that [ ] percent of the [ ] daily calls to the hotline were made by end users (relevant persons in the material differences analysis), but that he had no knowledge concerning whether end users who had purchased bearings from the distributors on the blacklist had called the hotline. Tr. 498. He testified that the hotline dispenses advice to anyone who does not identify himself as "someone from the gray market." Tr. 498. Worden testified that it was "difficult for us to differentiate" between gray market and authorized customers. Tr. 492. He also testified that even someone who had purchased an authorized bearing would be denied services if he identified himself as having purchased the bearing from a blacklisted distributor. Tr. 501-502.

There does not appear to be any evidence in the record concerning how many, if any, end users were turned away because they had purchased bearings from a gray marketer. As the [ ] incident discussed above illustrates, there is evidence that a hotline caller was refused help even when it had purchased an authorized bearing. Thus, any persons who

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> FF 343 Calls to SKF USA's hotline from end-users have been refused if they purchased SKF bearings from unauthorized distributors listed on a "blacklist" provided to SKF USA's technical support personnel by SKF USA's lawyers. Worden, Tr. 491:19-492:11, 496:15-497:25.

may have been refused hotline services due to implementation of the blacklist may have been purchasers of originally authorized bearings. Accordingly, we find that the evidence does not support the ALJ's finding of actual confusion in regard to the hotline.

The ALJ found that other anecdotal evidence relied upon by SKF USA to show actual customer confusion between its authorized SKF bearings and respondents' unauthorized gray-market bearings was devoid of probative value. ID at 134. This evidence concerned various complaints about respondents' service. The ALJ found that SKF USA's evidence in this regard was not evidence of actual customer confusion concerning the source of gray market bearings because the evidence did not show that the complaining customers believed that SKF USA was affiliated with the problems that they had with respondents' service. ID at 133-134. For instance, one customer complained that respondent McGuire had supplied him with a bearing that was not manufactured in the USA, contrary to the customer's wishes. ID at 133. Another complained that respondent BL's engineering group support had provided poor service. ID at 132-133. Neither customer blamed SKF USA for the deficiencies. The ALJ also found that complainant had not established that actual confusion exists in the marketplace on a broader scale due to the sale of SKF branded products by nonauthorized entities. ID at 147. He found that the survey evidence submitted by SKF USA to prove this allegation was seriously flawed. ID at 147.

We find no error in the ALJ's findings concerning actual confusion other than the hotline finding discussed above.

We therefore affirm the ALJ's findings on actual confusion, except for those relating to the hotline.

**11.** ***Miscellaneous Issues***

The ALJ found that SKF USA had not established any material differences between its SKF marked bearings and those of respondents based on packaging and labeling standards, marketing materials, or the issuance of certificates of origin and other certifications. ID at 109-123. We find no error in the ALJ's findings on these issues, and we therefore affirm the ALJ's findings on these issues.

The ALJ determined, and the parties agreed, that a claim of false representation of source under the Lanham Act, 15 U.S.C. § 1125(a)(1)(A), is based on the same material differences test used for trademark infringement in the gray market context. Accordingly, the ALJ's determination that there has been a violation of section 337 on the basis of a false representation of source, ID at 151, is reversed on the same ground that his findings of statutory and common law gray market infringement are reversed.

*Appendix B*

## CONCLUSION

Our decisions (1) to reverse the ALJ's determination that a material difference exists between the products of complainant and respondents based on post-sale technical and engineering services, and (2) to affirm his determinations that there are no other material differences, result in a finding of no violation of section 337 in this investigation. Because we determine that section 337 has not been violated, we do not reach the issue of whether laches should apply to prevent the issuance of a remedy in whole or in part, and we vacate the ALJ's ID on that issue.

Supreme Court, U.S.
FILED
051236 MAR 23 2006
OFFICE OF THE CLERK

No. 05-

IN THE

# Supreme Court of the United States

SKF USA INC.,

*Petitioner*,

v.

INTERNATIONAL TRADE COMMISSION, BEARINGS LIMITED, and MCGUIRE BEARING COMPANY,

*Respondents.*

**ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

## APPENDIX

**Volume II of II (pp. 121a-End)**

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**PUBLIC VERSION**

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

Washington, D.C.

**Inv. No. 337-TA-469**

**In the Matter of**

**CERTAIN BEARINGS AND PACKAGING THEREOF**

**INITIAL DETERMINATION CONCERNING VIOLATION OF SECTION 337 AND RECOMMENDED DETERMINATION ON ISSUES CONCERNING PERMANENT RELIEF**

(April 10, 2003)

[Table of Contents intentionally omitted]

*Appendix C*

## STATEMENT OF THE CASE

*Introduction*

This Section 337 investigation is the latest in a long history of complex economic litigation involving the bearings industry that stretches back over half a century. COMPLAINANT, SKF USA, Inc. ("Complainant" or "SKF USA"), has waged a battle over the gray market in SKF-brand bearings that has touched not only upon trademark law as in this case, but also upon antitrust law and antidumping law. In order to have the proper perspective with which to understand the conclusions reached and the remedy recommended herein, it is useful to review that history at the outset of this Initial Determination.

To a large extent, the gray market in SKF-brand bearings traces its roots at least as far back as a 1950 antitrust consent decree between SKF and the United States Department of Justice that set the modern gray market in motion. For thirty years between 1950 and 1980, that decree forbade SKF Industries, Inc. ("SKF Industries"), the predecessor of present-day SKF USA, from "exclud[ing] any other person, firm or corporation from any market for bearings, or [determining] the terms or conditions to be imposed upon or required of any other firm, corporation or person for the manufacture, purchase, sale or distribution of bearings . . . ." *See* CX-2703, *U.S. v. SKF Industries, Inc. et al.*, Civil Action No. 9862, Final Judgment ¶ IV(E) (E.D.Pa., September 29, 1950). Significantly, the consent decree also stated that SKF Industries was forbidden from "[i]nterfering with or preventing" its Swedish parent company, AB SKF, "or its

affiliates, or any firm, corporation or person by *threat or institution of infringement suit or otherwise*, from exporting into the United States bearings made by [AB SKF] and its affiliates and marked with the existing ["SKF" word] mark or contained in packages marked with the existing mark." *Id.* ¶ V(G) (emphasis added).

It is clear from these concerns that were addressed in the foregoing passages of the consent decree that SKF Industries before 1950 used trademark infringement suits to counter what it considered to be "unauthorized" imports of SKF bearings from foreign sources, even though those foreign sources obtained the bearings from the SKF Group itself. As a result of this settlement of the antitrust violations that the Department of Justice alleged were resulting from this practice, the present-day "gray market" was created as an "authorized" market under the protection of the consent decree. Pursuant to that order, SKF Industries was forbidden for thirty years from enforcing its trademark rights in the "SKF" mark against such activity. It was in this atmosphere that three of the four remaining respondents in this investigation were founded and began dealing with the SKF Group and its distribution network.

The consent decree was vacated in 1980. *See* CX-2704, *U.S. v. SKF Industries, Inc. et al.*, Civil Action No. 9862, Order (E.D.Pa., November 3, 1980). Upon its vacatur, things began to change for the "authorized" market in SKF bearings, which had now become a real "gray market." The respondent having the longest track record in the gray market was informed by SKF that its manufacturing units ("MUs") would no longer sell to it directly. In 1988, SKF USA's marketing

manager issued a warning to its authorized distributors about the threat of counterfeit bearings, stating that "SKF product continues to be bootlegged into the U.S. through unauthorized sources, a procedure commonly called 'the gray market.'"

Despite the cutoff of direct supplies from SKF MUs, however, U.S. gray marketers in the 1980s were still able to acquire SKF bearings from foreign sources, including foreign SKF authorized distributors. What is more, gray marketers found an outlet for cheap imported SKF bearings not only in end-users, but also with SKF USA's authorized distributors, and even SKF USA itself; those entities would buy gray market bearings as well. This state of affairs led to consternation on SKF USA's sales force, which was suppressed because of the ample market for "genuine" bearings and the "win-win" impact on all concerned, other than the SKF USA sales force. What is more, SKF USA did not bring any gray market trademark infringement actions against any entity from the date that the consent decree was vacated until the complaint was filed in this investigation, even though the vacatur of the consent decree afforded SKF USA an opportunity to file such actions once again, as it had before the antitrust case started.

As the decade of the 1980s progressed, the U.S.-based bearings industry became inundated by a wave of cheap foreign bearings, including foreign-made SKF bearings, that were being dumped on the U.S. market by importers. In response, a domestic manufacturer filed a petition on March 31, 1988 with the Commission and the United States Department of Commerce requesting the commencement of an antidumping investigation by reason of the importation

at less than fair value ("LTFV") of bearings from Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand, and the United Kingdom. *Antifriction Bearings (Other Than Tapered Roller Bearings) and Parts Thereof From the Federal Republic of Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand, and the United Kingdom*, Inv. No. 731-TA-391-399, U.S.I.T.C. Pub. No. 2083, at 2 (U.S.I.T.C., May 1988) ("*Bearings Antidumping Investigation*, Preliminary Report"). One year later, as a result of the findings of the Commission and the Department of Commerce that dumping was indeed occurring, antidumping duties were imposed on certain types of bearings that were imported into the United States from several of the named countries. *Bearings Antidumping Investigation*, U.S.I.T.C. Pub. No. 2185 (U.S.I.T.C., May 1989) ("*Bearings Antidumping Investigation*, Final Report").

The imported bearings found to have been dumped on the United States market included SKF bearings manufactured by SKF MUs in Germany, France, Italy, Sweden, and the United Kingdom that had significant LTFV margins. *See Bearings Antidumping Investigation*, Final Report at A-22 (Table 2). To give an example, the LTFV margins for SKF ball bearings were found to amount to 132.25 percent for Germany, 66.42 percent for France, 155.99 percent for Italy, 180.00 percent for Sweden, and 61.14 percent for the U.K. *Id.* As a result, since 1989, antidumping tariff duties have been imposed by the U.S. Customs Service on such imports at rates sufficiently high enough to offset the LTFV margins. *See* 54 Fed. Reg. 20900-11 (Import Administration, Dep't. of Commerce, May 15, 1989).

## *Appendix C*

The antidumping duty rates that are calculated by Commerce are specific to each manufacturer from each affected country. *See, e.g.*, 54 Fed. Reg. 20900-11, *supra* (Notices setting antidumping duties on bearings from each affected country). Any United States importer of the subject merchandise is subject to the same antidumping duty rate that is assigned to a particular foreign manufacturer of that product in a subject country unless Commerce administratively decides to apply a higher, "All Others" rate to that specific importer. *See, e g.*, 67 Fed.Reg. 17361, 17366 (April 10, 2002) ("if the exporter is not a firm covered in this review, a prior review, or the less-than-fair-value investigation, but the manufacturer is, the cash-deposit rate will be the rate established for the most recent period for the manufacturer of the merchandise"). The antidumping duty rates are usually adjusted annually by Commerce after it conducts an administrative review of LTFV margins pursuant to 19 U.S.C. § 1675. *See* 19 C.F.R. § 351.213 (2002). The practical impact of this yearly review is that if the price at which the imported bearings are sold in the United States is found to be higher, the LTFV margin is lower, and the corresponding antidumping duty rate is lower.

Over the decade of the 1990s, SKF USA regularly applied to Commerce for yearly administrative reviews of the antidumping duty rates applicable to its imported bearings. As a result of these administrative reviews, the annual LTFV margins for SKF bearings during the 1990s were found by Commerce to be much lower than they were determined to be in the original 1989 Commission antidumping investigation. The LTFV margin for SKF ball bearings from Germany, for example, dropped from the level of 132.25

percent found in the 1989 *Bearings Antidumping Investigation* Final Report to 4.25 percent as a result of the 1997 Commerce administrative review, 2.26 percent in the 1998 review, 1.23 percent in the 1999 review and 6.39 percent in the 2000 review. *See* 65 Fed. Reg. 49219-23 (August 11, 2000) (2000 review); 64 Fed. Reg. 35590-625 (July 1, 1999) (1999 review); 63 Fed. Reg. 33320-50 (June 18, 1998) (1998 review); 62 Fed. Reg. 54043-85 (October 17, 1997) (1997 review).[1]

As stated earlier, an unauthorized importer of SKF bearings is subject to the same antidumping duty rates that SKF USA pays in the absence of a specific administrative determination by Commerce that the higher "All Others" rate should apply to that importer. Thus, since there have been no administrative reviews of the appropriate duty rates for most gray-market importers of SKF bearings, all but one have obtained the same favorable antidumping duty rates that apply to the manufacturer of imported SKF bearings from each affected country that SKF USA has obtained. However, there is no obligation on such importers to raise their U.S. prices to the levels that SKF USA maintains as a way to keep the overall LTFV margin for imported SKF bearings low, and the U.S. prices charged by gray-market importers are indeed much lower than those charged by SKF USA. The resulting

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1. Each annual Commerce administrative review of LTFV margins for bearings subject to the antidumping duties examines prices for the one-year period ending on April 30 of the preceding calendar year. Thus, the 1998 review, for example, covered the period from May 1, 1996 through April 30, 1997. *See, e.g.*, 63 Fed. Reg. 33320 (June 18, 1998); *also see* 19 U.S.C. § 1675(a)(1); 19 C.F.R. § 351.213(e) (2002).

gap between SKF USA's high U.S. prices and the substantially lower prices that gray marketers can charge for imported SKF-brand bearings as a result of this loophole in the antidumping duty program creates a significant opportunity for arbitrage, and Respondents have seized upon that economic opportunity.

*The Instant Section 337 Investigation*

To stem the flow of cheap, gray-market SKF bearings through these lacunae of the antidumping duty barrier, SKF USA filed a Section 337 complaint with the Commission on March 11, 2002. The Complaint, as amended on March 21, 2002 and supplemented on March 29 and April 5, 2002, alleged violations of Section 337 in the importation into the United States, the sale for importation, and the sale within the United States after importation of certain bearings and packaging thereof on the part of RESPONDENTS named therein by reason of (1) infringement of U.S. Trademark Registration Nos. 502,839, 502,840, 1,944,843, and 2,053,722; (2) infringement of common law trademarks; (3) dilution of registered and common law trademarks; (4) false representation of source in violation of Section 43(a)(1)(A) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(A); (5) false advertising in violation of Section 43(a)(1)(B) of the Lanham Act, 15 U.S.C. § 1125(a)(1)(B); (6) passing off; and (7) unfair pecuniary benefits. The Complaint further alleged that an industry in the United States exists as required by subsections (a)(1)(A) and (a)(2) of Section 337 with respect to the trademarks at issue.

*Appendix C*

On April 9, 2002, the Commission voted to institute this investigation to determine:

> (a) whether there is a violation of subsection (a)(1)(C) of Section 337 in the importation into the United States, the sale for importation, or the sale within the United States after importation of certain bearings and packaging thereof by reason of infringement to U.S. Trademark Registration Nos. 502,839, 502,840, 1,944,843, or 2,053,722 and whether there exists an industry in the United States as required by subsection (a)(2) of Section 337; and
>
> (b) whether there is a violation of subsection (a)(1)(A) of Section 337 in the importation into the United States, the sale for importation, or the sale within the United States after importation of certain bearings and packaging thereof by reason of (1) infringement of common law trademarks; (2) dilution of registered and/or common law trademarks; (3) false representation of source; (4) false advertising; (5) passing off; or (6) unfair pecuniary benefits, the threat or effect of which is to destroy or substantially injure an industry in the United States.

This investigation was instituted on April 16, 2002 by the Commission's publication of a Notice of Investigation in the Federal Register. 67 Fed. Reg. 18632 (April 16, 2002). After a period of discovery and pre-hearing briefing, a tutorial on the technology involved in this investigation was held on

December 6, 2002. An evidentiary hearing on the merits before the undersigned was held on December 9-24, 2002, January 6-13, 2003, January 22-23, 2003, and March 4, 2003. On January 29, 2003, Complainant SKF USA filed its initial post-hearing brief, Respondents BL, CST, McGuire and Bohls filed their joint initial post-hearing brief, and Commission Investigative Staff ("Staff") filed its initial post-hearing brief.[2] On February 10, 2003, the parties filed reply briefs.[3]

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2. Both Complainant and Respondents subsequently moved [469-131 and 469-132] for leave, hereby granted, to file corrected versions of their initial post-hearing briefs. Hereinafter, all citations to those parties' initial post-hearing briefs are to their corrected versions.

3. For convenience, the following abbreviations for the post-hearing briefs of Complainant, Respondents and Staff shall be used throughout this Initial Determination:

CIB: Complainant's Initial Post-hearing Brief

CRB: Complainant's Reply Post-hearing Brief

RIB: Respondents' Initial Post-hearing Brief

RRB: Respondents' Reply Post-hearing Brief

SIB: Staff's Initial Post-hearing Brief

SRB: Staff's Reply Post-hearing Brief